Center on Budget and Policy Priorities

820 First Street NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

October 12, 2007

TARGETED PROPERTY TAX REFORM:
Designing a Circuit Breaker for Florida

By Sarah Farkas and Iris Lav

Summary

Property taxes in Florida are, on average, moderate when compared to those in other states. For example, Florida property taxes as a percent of residents' income ranked 19th in the nation in 2005.[1] In Florida as in most other states, however, families with lower incomes tend to pay higher property taxes relative to their incomes than do wealthier families. Florida homeowner families earning less than $20,000 on average devote almost three times as much of their income to paying property taxes as families with incomes exceeding $200,000.[2]

Some states use a targeted property tax relief mechanism to lessen these types of disparities. In 18 states, households may qualify for property tax circuit breakers.[3] Circuit breakers are programs that can significantly reduce the tax liability for individuals with high property taxes relative to their incomes.[4] A circuit breaker could be used in Florida — possibly in conjunction with other property tax relief mechanisms — to ensure that low- and middle-income property owners and renters are protected from having to pay too great a proportion of their income in property taxes. A circuit breaker also would protect eligible households from experiencing property tax increases that they cannot afford.

This paper models a proposed circuit breaker program for Florida. The circuit breaker is designed to provide property tax credits to up to 2.5 million Floridians while making administration simple and effective.

---

[1] CBPP analysis of 2005 Census American Community Survey data. Since the legislature rolled back property taxes to their 2005 level, this data is a reasonable reflection of the current situation.

[2] CBPP analysis of 2005 Census American Community Survey data.

[3] These states are Illinois, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Montana, New Jersey, New Mexico, New York, Oklahoma, Oregon, Pennsylvania, Rhode Island, Vermont, Wisconsin, and the District of Columbia.

[4] For more information, see Karen Lyons, Sarah Farkas, and Nicholas Johnson, "The Property Tax Circuit Breaker: An Introduction and Survey of Current Programs," Center on Budget and Policy Priorities, March 21, 2007, www.cbpp.org/3-21-07sfp.htm.

Under the design illustrated in this paper:

- No household with income below $60,000 would have to pay more than 4 percent of its income in property taxes.

- Households with incomes between $60,000 and $100,000 would be eligible for relief if they pay more than 5 percent of their income in property taxes; those with incomes between $100,000 and $150,000 if they pay more than 6 percent of their income in property taxes..

- More than half of households with incomes below $60,000 — those most overburdened by property taxes — would benefit from this proposal.

- Renters as well as homeowners would be protected.

- The cost would be significantly less than $1 billion a year.

Florida Property Tax Facts

Property tax inequality is high in Florida. Low- and middle-income homeowners in Florida are likely to spend more of their income on property taxes than are higher income families. For example, while 21 percent of those earning less than $60,000 a year pay 8 percent or more of their income in property taxes; virtually none of those earning more than $200,000 a year pay this much.[5] Renters also pay property tax that landlords pass through to them in their rent payments. Households with incomes less than $20,000 typically pay over 60 percent of their income in rent.

What is a Circuit Breaker?

Property tax circuit breakers, like the devices that shut off electric power to prevent circuits from overloading, prevent property taxes from "overloading" a family's budget by "shutting off" property taxes once they exceed a certain share of the family's income.

Circuit breakers are property tax refunds. Circuit breakers usually set a maximum percentage of income that a qualifying household is expected to pay in property taxes before it can receive a rebate. Among the states with circuit breakers currently in place, this ranges from 1 percent to 9 percent of income, with some states varying the percentage with the family's income level. If the household's property tax bill exceeds this limit, the state rebates either all or a portion of tax payments made above this limit.

All state circuit breakers restrict eligibility to certain income groups; that is, there is a maximum income above which the household does not qualify for circuit breaker relief. Some states also limit

[5] Please note this information reflects Census American Community Survey data from 2005. Property taxes in Florida have increased somewhat since then. This is the most recent available data on individual property tax payments. Since the legislature rolled back property taxes to their 2005 level, this data is a reasonable reflection of the current situation.

A Circuit Breaker Provides More Responsible Relief than a Property Tax Revenue Cap

- Like a tax cap, a circuit breaker can provide protection when the value of a household's property rises rapidly due to nearby development or strong demand for housing. Once a household's property tax exceeds the specified percentage of income, the taxpayer does not pay any additional increases in property tax until it reaches the maximum benefit set under the circuit breaker. This substantially alleviates or cushions the affects of property tax increases for households that would have the most difficulty in affording those increases.

- Unlike a tax cap, states usually bear the costs of circuit breaker programs, funding them out of the general fund, whereas localities usually bear the costs of property tax revenue caps. Circuit breakers allow the property tax itself to continue to fund essential services like education at the local level, whereas revenue caps restrict local spending and jeopardize funding for local services.

- Circuit breakers are generally less expensive than revenue caps. They are carefully targeted to provide relief to those who most need it and so cost less than more broad-brush approaches such as caps.

eligibility to homeowners, senior citizens, and/or disabled residents, although such limits reduce the effectiveness of the circuit breaker to provide relief for people who pay a disproportionate amount of their income in property taxes. While seniors and disabled residents often are living on fixed incomes and can have problems paying rising property taxes, families with children and other residents can also be overburdened by property taxes in some circumstances.

Renters are another group for whom property taxes may represent an outsized burden.[6] All states except one extend their circuit breakers to renters. Renters pay property tax indirectly as part of their monthly rent payments. Landlords typically take property tax liability into account when they set rents, so higher property taxes could result in higher rents.

In order for the state to provide renters with rebates, it must make an assumption about how much of the rent payment constitutes property tax; the actual amount of property tax that owners of real estate pass on to renters through higher rent is unknown. This "property tax rent equivalent" is usually expressed as a percentage of rent paid.

What Might a Florida Circuit Breaker Look Like?

The design of a circuit breaker should be customized to each state's situation. For example, it would be important for a Florida circuit breaker to not only relieve current property taxes for households that are unable to pay them, but also to protect low- and middle-income families against the potential for future property tax increases that they would have difficulty affording. Thus Florida's circuit breaker should refund the total amount of property taxes paid above a certain percentage of income.

[6] According to the 2005 American Housing Survey, 31 percent of all households in the U.S. are renters, while 57.4 percent of households in poverty are renters. Table 2-1, 2005 American Housing Survey, US Census Bureau (www.census.gov/prod/2006pubs/h150-05.pdf)

It is also important to set the percentage of income that a household can be expected to pay in property taxes in a way that relates to relative property tax levels experienced in the state. In Florida in 2005, the *average* property taxes paid relative to income were as follows:[7]

- Those earning less than $60,000 paid 3.78 percent of their income in property taxes.

- Those earning between $60,000 and $100,000 paid 2.5 percent of their income in property taxes.

- Those earning between $100,000 and $150,000 paid 2.2 percent of their income in property taxes.

Thus, higher income residents, who have a greater ability to pay, are paying lower taxes relative to their incomes. In designing a circuit breaker, therefore, it makes sense to relieve property taxes for higher income residents only when their burden is unusually high. For this reason, the threshold for circuit breaker relief — the percent of income above which property taxes are rebated — can be higher for higher income residents than for those with lower incomes.

The following circuit breaker structure would significantly relieve property tax burdens in Florida:

- If household income is less than $60,000, property taxes that exceed 4 percent of income would be refunded.

- If household income is between $60,000 and $100,000, property taxes that exceed 5 percent of income would be refunded.

- If household income is between$100,000 and $150,000, property taxes that exceed 6 percent of income would be refunded.

- Households with income above $150,000 would not be eligible for circuit breaker relief.

- The maximum refund would be $1,500.

- Renters and homeowners of all ages would qualify.

- For renters, it would be assumed that 15 percent of rent represents property taxes paid.

The following are examples of how the circuit breaker property tax relief would work:

- The Mathis family earns $70,000 a year and pays $4,500 in property taxes. Under this circuit breaker mechanism, their credit would be everything paid in property tax that exceeds 5 percent of their income, which in this case is $70,000 times 5 percent or $3,500. Thus, they will receive a state rebate of $1,000, the difference between $4,500 and $3,500.

[7] CBPP analysis of 2005 Census American Community Survey data.

- The Jones family earns $40,000 a year and rents an apartment in Jacksonville for $1,100 a month, or $13,200 a year. Fifteen percent of their rent— $1,980—is considered property tax. They qualify for a $380 state rebate ($1,980 minus 4 percent of $40,000 or $1,600)

- The Smith family earns $80,000 a year and pays $5,600 in property taxes on their home in Cocoa Beach. They qualify for the maximum $1,500 state rebate; their property taxes exceed 5 percent of their income by $1,600, but the maximum credit is $1,500.

- Jason and Marie are married and earn $100,000 a year from their jobs and investments. For the past few years, their property taxes have hovered around $5,500 or 5.5 percent of their income. However, in one year, their property taxes shoot up to $6,500, or 6.5 percent of their income. They now qualify for a circuit breaker rebate of $500 ($6,500 minus $6,000, which is 6 percent of $100,000).

- Kate usually makes $65,000 a year and pays $1,000 in property taxes (1.5 percent of her income) on her Gainesville home, but she loses her job in February. With unemployment insurance, her total income for the year is $20,000. Although she would not usually be eligible for a circuit breaker, she now qualifies for a $200 rebate ($1,000 minus $800, which is 4 percent of $20,000).

Who Would Receive the Benefit?

If this circuit breaker had been in effect in 2005, the following groups of Floridians would have been eligible for a credit:

- About 53 percent of households earning less than $60,000;
- About 12 percent of households earning between $60,000 and $100,000; and
- About 6 percent of households earning between $100,000 and $150,000.

How Much Would a Circuit Breaker Cost?

A circuit breaker of the design illustrated above would likely cost significantly less than $1 billion a year in the first several years after implementation.

Experience from other states suggests that a strong outreach campaign is necessary to inform eligible households about the program and encourage them to apply. The state, localities, or nonprofit organizations can engage in such outreach. If outreach is particularly successful, costs could increase in future years.[8]

---

[8] If every eligible household had successfully applied for this circuit breaker credit, the program would have cost roughly $2 billion dollars in 2005. However, participation in programs such as these rarely reaches 100 percent. In fact, participation often reaches only 50 percent a few years after the program's inception. This does not mean such a program is ineffective, but rather that it can be improved. It is extremely important to those households that do claim it. If the circuit breaker is used in conjunction with other property tax relief mechanisms, such as an expanded homestead exemption, its cost would be lower than the $1 billion estimate.

Can Florida Administer a Circuit Breaker?

States typically use one of three mechanisms to deliver property tax circuit breakers: a direct rebate check, an income tax credit, or a credit for future property tax bills. Since Florida does not have a personal income tax, the program would have to be administered as a direct state rebate. Half of the states with circuit breakers administer their programs through a direct state rebate. In these states, applicants must either attach a copy of their federal tax returns or other income-related documents, or sign an affidavit stating that their income information is true and correct. Florida could require similar documentation.

Conclusion

Florida legislators should use a circuit breaker to create a fair and targeted property tax system and to address property tax discord. Such a program can provide meaningful assistance to low- and middle-income Floridians.