

NOTES ON MICHIGAN'S HOMESTEAD PROPERTY TAX CREDIT

House Tax Policy
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Topics Covered

- How the program works.
- Other states' programs.
- Statistics about the credit.

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Description

- A refundable credit that homeowners and renters may claim against the Michigan income tax.
- Based on the relationship of property taxes on the taxpayer's homestead to the taxpayer's household income.

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Basic Eligibility

- Taxpayer's homestead (the place where the taxpayer has a permanent home, and plans to return to whenever gone) is in Michigan.
- Taxpayer is a resident of Michigan for at least 6 months during the year.
- Taxpayer owns or rents and resided in a Michigan homestead on which property taxes were levied.
- Household income is less than \$82,650

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General Taxpayers' Calculation

- Calculate 3.5% of household income.
- Subtract from property taxes.
- Credit is 60% of the difference.
- Cannot exceed \$1200.

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Senior Taxpayers' Calculation

- Calculate 3.5% of household income.
- Percentage reduced for lower household income
 - Not over \$3,000.00 -0%
 - Over \$3,000.00 but not over \$4,000.00- 1.0%
 - Over \$4,000.00 but not over \$5,000.00- 2.0%
 - Over \$5,000.00 but not over \$6,000.00 -3.0%
- Subtract from property taxes.
- Credit is 100% of the difference.
- Cannot exceed \$1200.

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Renters' Calculation

- Renters substitute 20 % of rent for property tax amount.
- Senior may calculate alternative rent-based credit based on amount by which rent exceeds 40 % of house income.
- Nursing home and adult foster care residents use their share of property taxes paid by the facility.

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Other Eligibility Details

- Taxes must be prorated if home is sold.
- Persons on public assistance reduce credit by percentage of income from public assistance.
- Credit is phased out in 10 % increments between \$73,650 and \$83,650.

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What May be Claimed as Property Taxes

- Tax levied during the tax year regardless of when paid.
- **Does not include:**
 - Water and sewer bills.
 - Special assessments other than uniform millages levied jurisdiction wide for police and fire.
 - Interest and penalty for late taxes.
 - Taxes on second homes.

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Eligible Taxes on Farmland

- If gross receipts from farming exceed household income, all taxes may be claimed.
- If gross receipts are less than household income and taxpayer resided 10 years, all taxes on contiguous property may be claimed.
- If gross receipts less than household income and resided less than 10 years, not more than 5 contiguous acres may be claimed.

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Additional Credit on Farmland

- Amount of taxes in excess of 3.5 % of household income.
- No cap.
- Must enter into agreement to keep land in farming for at least 7 years.
- Local government must approve enrollment.

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Other States' Programs

- 18 states have a homestead credit program.
- 8 of those states limit the program to seniors and disabled taxpayers.
- 4 states have higher maximums than Michigan. (Oregon limited to senior renters).
- 4 states have higher income disqualifiers.
- Only 1 state's circuit breaker represents a higher percentage of the total tax levy than Michigan's.

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Source: Center for Budget and Policy Priorities

General Statistics

- In 2007, about 1.05 million general taxpayers claimed credits of \$522.6 million, with an average credit of \$496.
- Of these 423,000 were renters with an average credit of \$363.
- About 430,000 senior taxpayers claimed credits of about \$322 million, with an average credit of \$742.
- Of these about 57,000 were renters claiming the standard credit with an average credit of \$616.

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General Statistics (cont'd)

- About 79,000 disabled taxpayers claimed credits of \$50.1 million for an average credit of \$633.
- Of these about 40,000 were renters who claimed an average credit of \$567.
- 6400 taxpayers claimed both the farmland and homestead credit for a total of \$35 million and 85% of their property taxes.

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Before Proposal A

- For tax year 1993, a total of 308,000 taxpayers were at the maximum \$1200 credit representing 17.8% of all credits.
- For tax year 1993, of this number, 204,000 were seniors, representing 37.1% of the total seniors claiming credits.

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After Proposal A- Then

- For tax year 1995, 63,200 taxpayers were at the maximum, comprising 5.8% of all credit claimants.
- For tax year 1995, of that number 47,000 were senior taxpayers representing 11.8% of all claimants.

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And Now

- In 2007, about 262,500 taxpayers were at the \$1200 maximum representing 16.6 % of all credits filed.
- In 2007, of this number, 136,300 were senior claimants representing 31.7 % of all senior credits.

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Percent of Property Taxes Remains the Same after Proposal A -Then and Now

- In 1993, the homestead property tax credit was 10.96 % of the total Michigan property tax levy.
- With the passage of Proposal A, in 1994 the homestead credit was 6.51% of the total property tax levy.
- In 2007, the homestead credit was 6.52% of the total property tax levy.

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