

Testimony on H-5444:
An act concerning the property-tax
“circuit-breaker” tax credit

Tom Sgouros, Editor
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Honorable Committee Members:

One of the things that seems almost never to be discussed in debates about property and income taxes is that the impact of these two taxes falls most heavily on very different groups of people. The income tax is a progressive tax, falling most heavily on wealthy individuals, while the property tax is a regressive tax, falling most heavily on our poorest citizens.

These are well-known facts, but some of their consequences are not widely appreciated. For example, were it possible to wave a magic wand, doubling the income tax in order to halve the property taxes statewide, over three-quarters of the taxpayers in the state would see a tax cut, many of which would be in the thousands of dollars.

This fact has a flip side, which is that when income taxes decline, and property taxes go up to accommodate declining state aid, the vast majority of the state sees a tax increase. A dollar moved from property to income taxes is a cut for 99% of the state, but moved the other way, from income to property tax it's a hike for all but the richest taxpayers.

Attached to this testimony is an article reprinted from the **Rhode Island Policy Reporter** of last May that shows some data that makes the situation clearer. The article includes tables about the average annual tax bills and annual household incomes for all of Rhode Island's towns. On page 8, you'll find the result, a table that shows how much of a household's income goes to paying the property tax, according to how much that household earns in each town in the state. To my knowledge, this is the only study done on property tax incidence to this level of detail. The article describes how it was done. You can see from the tables that in all towns, the wealthiest households pay property taxes at a far lower rate compared to their income than poor households. In many towns, the difference is as much as a factor of three or four.

In the Governor's budget, there is an implicit acknowledgement that the increases in state aid will not help our state's school districts. In all the schools that are run by the state, the expected increases in expenses range from 6 to 10%, but the state aid offered to municipally-run schools is only slated to increase by 3%. The budget thus appears to acknowledge that municipal property taxes will have to rise. Lower limits on property tax increases were passed last year, so it's not clear how towns will deal with the situation. It is clear that the state-run schools aren't in the same position.

Rhode Island has a small "circuit breaker" mechanism that provides up to \$300 in an income tax credit to offset property taxes (and the law recognizes that renters pay property tax by allowing this credit to apply to 20% of a taxpayer's rent).

Other states Just for comparison, both Massachusetts and Connecticut have similar programs. In Connecticut, the circuit breaker is worth a maximum of \$500, and can be received by families who earn more than \$100,000, though the maximum amount allowable gets smaller at high incomes. For Massachusetts seniors, a circuit breaker credit is available to offset the amount by which your property tax exceeds 10% of your income, up to a maximum of \$870. (Massachusetts also allows renters to deduct half their rent, up to \$3000.)

Last year's budget increased Rhode Island's circuit breaker amount from \$250 to \$300, and created a mechanism to further increase the amount from \$300, as revenue from the video lottery terminals would allow. The bill under discussion here, H-5444, would increase the dollar value of the circuit breaker tax credit.

Cost According to the tax division, approximately 37,000 people applied for and received the circuit breaker tax credit last year. Not all received the full amount, so the total amount awarded was about \$8.9 million. Since the appropriation limit was removed this year, in addition to the increase in the limit itself, my estimate (not the tax division's) is that the tax credit will cost about \$10.7 million for fiscal year 2007. For fiscal year 2008, the bill proposes to double the amount of the credit.

The result of increasing the circuit breaker will be a beginning of a

shift back to the income tax, where a person's tax is related to their ability to pay, as opposed to the property tax, where a person's tax increases as their ability to pay decreases.

Many thanks for your time and attention,

Tom Sgouros

Rhode Island Policy Reporter

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Just who pays the property tax?

Analyzing the taxes paid by Rhode Islanders is a game played largely in the dark. The state Division of Taxation has for years pooh-poohed the importance of collecting reliable data about what is paid by whom, and the wholly predictable result is that we really have very little clue about some very important matters. (Few of our towns do any better.) For example, how much do corporate tax loopholes cost us every year? How much does the sales tax exemption for clothing cost or the tuition savings program deduction? For all of these questions, the state simply does not collect the data.

One of the important questions left unanswered is about the property tax: who pays it, and how much do they pay? The available analyses lack detail needed to be a useful guide to action. To make a stab at answering this question, I used data from the Department of Planning. Every year, their Office of Municipal Affairs tracks real estate sales in each town in the state, and notes the official assessment of each property on the list. They provided 18,277 such records to me, all the sales from 2004. I took the 15,966 residential sales, and used the town tax rates to estimate property tax bills for each of those properties. If you assume that the properties sold in 2004 are a random sample of the town, the list of bills is then a representative sample of all the property tax bills issued in that town.

The planning department also tabulates Census data for each town in the state, which I used to come up with income estimates for 2004, and the number of senior citizens in each town. (All Rhode Island towns provide some kind of property tax relief to seniors, so it was important to come up with some way of estimating the cost of these exemptions.) In the model constructed, seniors were randomly assigned to the houses sold during the year. The Census numbers also provide housing data, like the numbers of apartments and houses and these make it possible to split the multi-family building bills up into households, correct for the number of apartments, and so incorporate the property taxes renters pay.

Table 1 (page 6) contains average values for each quintile of residences. That is, the values in the first column are the average of the least expensive 20% of tax bills, and the values in the far right column are averages of the most expensive 20% of tax bills.

Table 3 (page 8) contains the same data as Table 1, divided by the average income of each quintile (see page 7). So for Barrington, the \$2,161 average property tax bill of the lowest quintile is divided by \$21,882,

which is approximately the average income of the lowest quintile, while in Central Falls, the \$588 average property tax bill is divided by \$7,710, roughly the mean income of the poorest fifth of households in that city.

There are a couple of cautions to bear in mind with this analysis. Besides the assumptions mentioned above, the analysis doesn't include the fire districts, and then there is the problem of renters. It is widely agreed that renters pay property tax through their rent—property owners don't pay it *for* their tenants. But the relationship between rents and taxes probably isn't simple, though it's assumed to be that way here.

Another potential problem is that there is no guarantee that any given household in a given fifth of income pay the tax bills in the same quintile. For people who have lived in the same house for a long time, it is often true that they pay bills in quintiles well above their income. Conversely, many recent purchasers (and people living in unfashionable parts of their towns) will see bills lower than these estimates might imply. Notwithstanding these objections, it seems reasonable to expect that the middle quintile of households would—on average—pay the middle quintile of tax bills. For a researcher who often objects to aggregate statistics, this is risky territory (and it's why there are no statewide numbers shown) but it's valuable to see where the property tax falls.

So what do we learn? For one thing, we learn how regressive the property tax is. In every town, the tax rate as a percentage of income on the poorest residents is two to five times the rate on the richest. For those residents, the income tax burden pales before these numbers. The effective state income tax rates in Rhode Island range from zero for the poorest taxpayers, up to about 3.5% for incomes in the \$100,000 range, and up to as high as 7-8% beyond there. In other words, in most towns, you have to be well up into the top quintile before your state income tax exceeds your property tax.¹

We also learn from this analysis that there are poor people in the rich towns, though they may not be so poor by urban standards, and that the property tax weighs pretty heavily on them. These towns tend not to have the commercial tax base of the more urban areas and also tend to get the very minimums of state education aid. To simply say that a town is “rich” is to miss important details. ■

¹This analysis relies on households and on self-reported Census income data. Other distribution analyses, such as those by the Institute on Taxation and Economic Policy (ITEP), rely on IRS data about taxpayers and Adjusted Gross Income. Both approaches are considered reliable, but relating the two is challenging, and depends on information that isn't available, like how many taxpayers are in what kind of household, and how honest people are when they fill out their Census forms.

Table 1: Average annual property tax bills, for each quintile (from 2004 sales survey, Office of Municipal Affairs).

Town\Quintile	1st	2d	3d	4th	5th
Barrington	2,161	3,512	4,633	6,533	11,205
Bristol	1,011	1,731	2,484	3,155	5,083
Burrillville	909	1,242	2,045	2,581	3,768
Central Falls	588	787	930	1,102	1,444
Charlestown	1,149	1,639	1,981	2,535	4,764
Coventry	1,323	2,131	2,640	3,507	5,339
Cranston	1,126	1,417	2,431	3,326	5,779
Cumberland	1,580	2,401	2,928	4,093	5,343
East Greenwich	1,674	3,799	6,009	7,553	12,870
East Providence	968	1,214	1,536	2,083	3,152
Exeter	1,996	2,610	3,040	3,977	5,227
Foster	2,077	2,973	3,442	4,393	5,536
Glocester	1,645	2,610	3,146	3,797	5,436
Hopkinton	1,189	2,503	3,021	3,476	4,739
Jamestown	1,768	2,810	4,582	6,280	12,800
Johnston	1,203	1,929	2,556	3,042	4,282
Lincoln	1,281	2,216	3,152	3,767	5,719
Little Compton	970	1,392	1,624	2,113	4,149
Middletown	1,326	2,704	3,262	3,786	5,426
Narragansett	1,326	1,932	2,405	3,088	5,469
Newport	1,030	1,408	1,913	2,541	6,331
New Shoreham	1,180	1,878	2,646	3,420	4,553
North Kingstown	1,916	3,087	4,063	5,610	8,167
North Providence	1,113	1,656	2,362	2,919	4,249
North Smithfield	994	1,418	2,638	3,640	5,535
Pawtucket	850	1,019	1,146	1,497	2,857
Portsmouth	2,003	2,738	3,671	4,801	7,825
Providence	1,012	1,258	1,475	1,875	4,169
Richmond	1,344	2,315	2,772	3,249	4,181
Scituate	974	1,799	2,436	3,237	4,702
Smithfield	1,588	2,540	3,059	3,726	5,560
South Kingstown	1,289	2,097	2,899	3,879	7,007
Tiverton	1,465	2,245	2,984	5,579	9,446
Warren	1,008	1,320	1,976	3,108	6,768
Warwick	1,268	2,058	2,449	2,876	4,730
Westerly	717	1,187	1,702	2,384	5,247
West Greenwich	1,288	1,835	2,440	3,078	3,991
West Warwick	1,121	1,546	2,300	2,906	4,025
Woonsocket	818	1,008	1,146	1,436	2,143

Table 2: Average incomes for each quintile (from 2000 census, inflated to 2004). Derived from US Census reports furnished by the Office of Statewide Planning.

Town\Quintile	1st	2d	3d	4th	5th
Barrington	21,882	51,774	83,362	131,216	359,735
Bristol	12,458	32,533	52,917	81,509	178,592
Burrillville	18,601	40,689	63,331	90,323	168,899
Central Falls	7,710	16,002	26,774	43,049	81,347
Charlestown	19,623	44,755	58,379	81,240	198,146
Coventry	15,688	38,653	63,692	90,323	171,951
Cranston	13,033	32,331	53,473	80,729	185,520
Cumberland	16,047	38,529	63,828	90,323	193,201
East Greenwich	18,002	48,795	81,933	129,788	370,220
East Providence	12,712	29,698	46,203	64,964	129,508
Exeter	21,964	51,547	83,712	121,165	250,705
Foster	20,809	43,769	67,259	90,323	134,175
Glocester	21,158	46,164	65,257	90,323	173,581
Hopkinton	14,828	40,910	65,443	90,323	173,376
Jamestown	22,293	50,270	82,162	121,165	279,098
Johnston	12,229	29,376	51,508	82,192	174,553
Lincoln	15,323	35,210	60,346	90,323	198,739
Little Compton	18,709	44,703	65,132	99,869	316,105
Middletown	20,151	40,718	56,768	80,566	188,201
Narragansett	15,983	34,808	61,991	90,323	210,471
Newport	13,479	31,972	53,512	82,973	222,610
New Shoreham	12,246	29,816	51,016	80,554	209,197
North Kingstown	17,343	43,476	66,341	102,360	247,035
North Providence	12,967	29,999	45,686	65,186	138,314
North Smithfield	15,960	40,896	67,161	90,323	185,158
Pawtucket	10,051	21,343	37,418	61,929	135,882
Portsmouth	18,697	48,916	71,598	101,772	260,998
Providence	7,710	18,384	34,768	52,993	135,666
Richmond	25,108	51,938	71,598	90,323	158,751
Scituate	20,518	48,957	71,598	101,458	305,389
Smithfield	16,217	39,109	63,765	90,323	167,370
South Kingstown	18,638	43,386	66,200	90,323	193,784
Tiverton	15,177	38,542	63,236	90,323	175,651
Warren	12,593	29,274	49,971	80,103	182,803
Warwick	15,744	34,962	53,227	80,586	184,449
Westerly	21,494	52,015	81,958	121,165	184,244
West Greenwich	12,539	29,905	45,734	64,788	124,603
West Warwick	15,688	34,996	53,361	81,438	208,671
Woonsocket	9,848	21,577	35,373	53,030	103,644

Table 3: Property tax bills as a percentage of average annual household income (income data from 2000 census, provided by the Office of Statewide Planning).

Town\Quintile	1st	2d	3d	4th	5th
Barrington	9.9	6.8	5.6	5.0	3.1
Bristol	8.1	5.3	4.7	3.9	2.8
Burrillville	4.9	3.1	3.2	2.9	2.2
Central Falls	7.7	4.9	3.5	2.5	1.8
Charlestown	5.9	3.7	3.4	3.1	2.4
Coventry	8.4	5.5	4.1	3.9	3.1
Cranston	8.6	4.4	4.5	4.1	3.1
Cumberland	9.8	6.2	4.6	4.5	2.8
East Greenwich	9.3	7.8	7.3	5.8	3.5
East Providence	7.6	4.1	3.3	3.2	2.4
Exeter	9.1	5.1	3.6	3.3	2.1
Foster	10.0	6.8	5.1	4.9	4.1
Glocester	7.8	5.7	4.8	4.2	3.1
Hopkinton	8.0	6.1	4.6	3.8	2.7
Jamestown	7.9	5.6	5.6	5.2	4.6
Johnston	9.8	6.6	5.0	3.7	2.5
Lincoln	8.4	6.3	5.2	4.2	2.9
Little Compton	5.2	3.1	2.5	2.1	1.3
Middletown	6.6	6.6	5.7	4.7	2.9
Narragansett	8.3	5.5	3.9	3.4	2.6
Newport	7.6	4.4	3.6	3.1	2.8
New Shoreham	9.6	6.3	5.2	4.2	2.2
North Kingstown	11.0	7.1	6.1	5.5	3.3
North Providence	8.6	5.5	5.2	4.5	3.1
North Smithfield	6.2	3.5	3.9	4.0	3.0
Pawtucket	8.5	4.8	3.1	2.4	2.1
Portsmouth	10.7	5.6	5.1	4.7	3.0
Providence	13.1	6.8	4.2	3.5	3.1
Richmond	5.4	4.5	3.9	3.6	2.6
Scituate	4.7	3.7	3.4	3.2	1.5
Smithfield	9.8	6.5	4.8	4.1	3.3
South Kingstown	6.9	4.8	4.4	4.3	3.6
Tiverton	9.7	5.8	4.7	6.2	5.4
Warren	8.0	4.5	4.0	3.9	3.7
Warwick	8.1	5.9	4.6	3.6	2.6
Westerly	3.3	2.3	2.1	2.0	2.8
West Greenwich	10.3	6.1	5.3	4.8	3.2
West Warwick	7.1	4.4	4.3	3.6	1.9
Woonsocket	8.3	4.7	3.2	2.7	2.1