

Senior Property Tax Exemptions and Abatements

Background

In 2013, the City of Austin Mayor's Taskforce on Aging stressed the need for detailed research and analysis to examine options in affordable senior housing, including deferrals of all property taxes. A major issue is how property tax increases affect housing affordability for Austin homeowners, particularly for low-income seniors and those on fixed incomes. The report noted that property taxes rose 38% in the Austin area over the past 10 years (Toohey, 2012) and cited continued increases in property taxes as one of the challenges to the ability of many seniors to stay in their homes as they age. The Taskforce recommended an annual adjustment in the property tax exemption for seniors to counter the impact of property tax increases.

For seniors, the amounts of the exemptions that are granted by each taxing unit include:

- (1) Travis County \$70,000
- (2) Austin ISD: \$35,000
- (3) a tax ceiling for total school taxes
- (4) Austin Community College: \$115,000
- (5) Travis County Health Care District: \$70,000

On March 20, 2013 the Austin City Council agreed to increase the city's homestead exemption, a deduction of a home's appraised value, from \$51,000 to \$70,000 for homeowners 65 and older who qualify and the disabled. Council Member Laura Morrison argued that "a bigger tax break is one of the few tools the city has to help some of Austin's most vulnerable residents. There are thousands of seniors in this city that are just getting by" "In terms of searching for ways to address affordability, this is a demographic with many low-income people... I think it makes sense to take advantage of this tool and this option to help with affordability" (Coppola, 2014). Council Member Bill Spelman rebutted stating that: "By putting \$100 back in the pocket of every senior who owns a home, we have to take \$7 out of every younger person who owns a home, in addition to those who rent" in order to make up the difference,.... "I can think of a lot more efficient ways of putting money into the hands of people who really need it. I think we can do better than this".... Some members of the local community agreed and weighed in noting that "The elderly and the rest of us would all be better served if those tax subsidies were used to provide better public transportation options. I think studies have shown that a large percentage of the elderly population are well off and don't need a tax break" (McCrary, 2014).

The tax exemption has important costs and benefits. Currently, 75% of Austin seniors live in a home that they own, almost twice the proportion of the general population. Among seniors, 31,816 homeowners are receiving tax exemption based on the age of the householder (McCrary, 2014). The tax exemptions are important because of the growing Austin senior population. In 2012, residents 65 and older make up 7.3% of Austin population (61,099) and their number is expected to increase to 16% by 2040 (Robinson, 2012).

It was estimated that the increase in the property tax exemption would affect general fund revenue. According to Ed Van Eenoo, Deputy Chief Financial Officer for the City of Austin, the

City loses \$8 million in revenue each year due to the senior abatement. Increasing threshold to \$70,000 will lead to an additional \$3.2 million in lost revenue in fiscal year 2015. The additional exemption saves qualified individuals an average of \$95.51 per year. It raises the taxes on the owner of a median-valued home by \$6.79 per year. There were no estimates of how much taxes would increase for businesses (McCrary, April 23, 2014; Coppola, March 20, 2014). The Council's Resolution expresses the belief that it is reasonable to assume that an estimate of the impact of a \$1,000 increase in the exemption can be used to infer increases of other amounts (City of Austin, <http://tinyurl.com/lnege8a> At a recent meeting of the Governmental Accounting Standards Board (GASB), a main topic of the meeting was how to account for tax abatements for seniors.

Policy Options

In the absence of a state income tax, there is no alternative but to rely on a property tax. The question is who should receive it and how large should the exemption be? (Angel, 2014). For example, should a proposal solely focus on low-income seniors and those with fixed incomes? Conversely, should we treat Austin seniors as a monolithic group? With this in mind, we consider two major types of reform: *Parametric Reform*, which includes a tax ceiling (freezing property taxes), lower valuations, lower tax rate, and change in age of eligibility criteria; and *Structural Reform*, which exempts seniors altogether.

Option #1: The People's Property Tax Education Group has proposed a state law change to allow a freeze of all property taxes for all tax entities on residential homesteads when the property owner reaches age 65 and only if the appraised value of their residential homestead is at or below the median appraised value within each Texas County. This proposal expands a property tax freeze for all property taxes from all taxing entities not just the tax from the affected school district (Texas Property Tax Code (TPTC) §11.13, §11.26, §11.261, and/or other sections; People's Property Tax Education Group State of Texas, Travis County Proposed Legislation, 2014).

Two strengths of this proposal are first that it might stimulate the economy and second that it may also have minimal revenue implications given that it applies the exemption to those households at or below the median appraised value. This proposal still raises questions on whether it is fair and how it should be implemented. Is it reasonable for a household that falls slightly above the median appraised value to be disqualified while one that is just below receives it? Another concern regarding this proposal is that it might be casting too broad a net. Many people over 65 are far from poor and not in need of special tax relief. That includes even those living in houses below the median appraised value. Consider, for example, a middle class couple who decides to "downsize" and move from a house to a condo (one that is slightly below) the median appraised value. Or a single 65 and older University of Texas professor who lives in a small apartment near the campus. Some would definitely argue that they do not need to give them a special tax break. Further, many poor seniors live in rental properties. Are they any less entitled to tax relief than the poor who own their own homes? Finally, this option has implications for consumption patterns and is based on what one chooses to do with one's income. Thus, if one person opts to live in a \$190,000 house and spend his or her money on

travel or jewelry or grandchildren and another senior opts to live in a \$250,000 house there may be no justification for giving the former special tax consideration.

In sum, income inequality is one of the major problems the U.S. is facing. And unaffordable housing is one of the major problems challenging Austin. Although this proposal has some merits, it may not be the best way to address them.

Option #2: Another option is a benefit program that reduces property tax assessments by as much as 50% based on a sliding scale. Under the “sliding-scale” option the full discount is given to seniors whose incomes are less than \$22,000. This discount decreases progressively and is zero above \$44,000 (senior 2010 median household income, Robinson, 2014). See The New York State Department of Taxation and Finance, 2014 for details of the program.

A similar option is based on a ratio of one’s tax liability to income. Property Tax Circuit Breakers is a targeted property tax relief program that has been enacted in some form in 33 states plus D.C. A Circuit Breaker protects taxpayers from a property tax overload just like an electric circuit breaker: when a property tax bill exceeds a certain percentage of a taxpayer’s income, the circuit breaker reduces property taxes in excess of this overload level. The basic idea is simple: taxpayers earning below a certain income level should be given some amount of property tax relief when their taxes exceed a certain percentage of their income. The 34 jurisdictions that have implemented the idea have made different choices about who should receive the credit and how the credit should be calculated. Most circuit breakers target the relief to the elderly, usually based on the perception that elderly taxpayers have less ability to pay taxes. *Institute on Taxation and Economic Policy, Policy Brief on Property Tax Circuit Breakers, September 2011.*

An advantage of circuit breakers is that they are less expensive to a jurisdiction than across the board property tax breaks – and the benefits go to the taxpayers for whom property taxes are most burdensome. The main drawback of circuit breakers is that in general they are only given to taxpayers who apply for them, in the form of a credit or refund, and are not automatic.

In 2009, Governor Rick Perry vetoed House Bill 3983 which would have required the Comptroller to conduct a study of circuit breaker property tax programs. In response Rep. Eddie Rodriguez objected to the veto of a comptroller study, stating “A property tax circuit breaker is a tool that reduces the property tax liability for individuals whose property tax payments represent a large portion of their family income. Depending on how it’s structured, property tax relief would take effect as an individual experiences life changes that impact income, such as retirement, reaching the age of seniority, or becoming disabled.”

Option #3: Encourage seniors to apply for a reverse mortgage through an FHA approved lender. The HECM allows seniors who have equity in their homes to supplement their income.

Finally, we should note that there is a lack of research on the implications of trends in tax deferrals. The following questions merit serious attention:

- 1) Are there seniors 65 and older who have difficulty paying their property taxes in Austin?
- 2) How many elderly homeowners are delinquent in their payments?
- 3) Currently, how much tax revenue is foregone due to the deferment, and how much is that projected to be in the future?
- 4) Is it a significant increase?
- 5) To what extent will the aging of the baby-boom population affect revenue?
- 6) And, preferences to age-in-place?

References

Angel, Jacqueline, L. "Austin Property Tax Options For Seniors." Presentation to the Regular Meeting of the Commission on Seniors, Austin, TX, May 14, 2014.

Benavides, Martin. People's Property Tax Education Group. State Of Texas, Travis County "Proposed Legislation for Senior Citizen Tax Abatement." MartiBen@sbcglobal.net June 1, 2014.

Coppola, Sarah. "Austin OKs bigger tax break for elderly homeowners." <http://www.statesman.com/news/news/local-govt-politics/austin-oks-bigger-tax-break-for-elderly-homeowners/nfHSX/> March 20, 2014.

McCrary, Peter. "Austin Seeks to Assist its Aging Population." <http://impactnews.com/austin-metro/central-austin/austin-seeks-to-assist-its-growing-aging-population/> April 23, 2014.

The New York State Department of Taxation and Finance. 2014. Property Taxes and Assessments. Senior Citizens Exemption. <http://www.tax.ny.gov/pit/property/exemption/seniorexempt.htm>

Robinson, Ryan. 2014. City of Austin, "Demographic Data Foundations: Aging in Austin." ftp://ftp.austintexas.gov/GIS-Data/planning/Demographic%20presentations/TF_on_Aging_Sept_2012_rev1.ppt September 2012.

Toohy, Marty. "Austin property taxes jump 38% over past decade." *Austin American-Statesman*. <http://www.statesman.com/news/news/local/austin-property-taxes-jump-38-over-past-decade/nRprf/> June 30, 2012.

U.S. Federal Government Home Equity Conversion Mortgage (HECM) http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/hecm/hecmhome July 13, 2014.