

Government of the District of Columbia
Office of the Chief Financial Officer



Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO: The Honorable Phil Mendelson
Chairman, Council of the District of Columbia

FROM: Natwar M. Gandhi
Chief Financial Officer 

DATE: November 26, 2012

SUBJECT: Fiscal Impact Statement – “Schedule H Property Tax Relief Act of 2012”

REFERENCE: Bill 19-164, Draft Committee Print shared with the Office of Revenue Analysis on November 26, 2012

Conclusion

Funds are not sufficient in the FY 2013 through FY 2016 budget and financial plan to implement the bill. The bill would not have an impact in FY 2013 (its implementation date is January 2014), but will reduce income tax collections by approximately \$35 million in the four-year financial plan period.

Background

The DC Homeowner and Rental Property Tax Credit (“Schedule H”) provides low income residents a property tax or rent credit against household income taxes. The bill changes, in the following ways, the eligibility requirements and the calculation methodology for the Schedule H credit:¹

- Increases the maximum credit to \$1,000, and allows for annual cost of living adjustments using the Consumer Price Index² (CPI). Under current law, the maximum credit is \$750 and does not have any cost of living adjustment.
- For claimants renting a house, the bill increases the property taxes equivalent to 20 percent of the annual rent paid. Under current law, rent constituting property taxes accrued is calculated as 15 percent of the annual rent.
- Bases the calculation of the credit on the federal adjusted gross income of a tax filing unit. Under current law, the calculation methods are based on household income.

¹ D.C. Official Code § 47-1806.06.

² CPI is defined in the bill as the price index for all urban consumers for the District of Columbia, published by the Bureau of Labor Statistics of the United States Department of Labor.

- Allows for one Schedule H filing per year for each tax filing unit. Current law limits one Schedule H filing per year, per household, no matter how many tax filing units share the same household.³
- Sets the maximum household income eligibility to \$40,000 for tax years 2014 and 2015 and \$50,000 for tax year 2016 and beyond.⁴ Current law limits eligibility to household income of \$20,000 or less.
- Establishes a simplified credit calculation with two brackets of \$0-\$24,999 and \$25,000-\$40,000 with a credit that equals to the amount of property taxes (or rent equivalent) paid in excess of 3 percent and 4 percent, respectively, of adjusted gross income. Current law has a five-tiered eligibility calculation that limits the credit to a certain portion of the taxes (or rent equivalent) paid in excess of various shares of household income depending on the income level.
- Eliminates the alternative brackets for the elderly, blind, or disabled.
- For renters, no longer requires deduction of any federal or local rental supplements such as Housing Choice (Section 8) vouchers or support received under the Rental Housing Act of 1977.⁵

The bill requires these changes take effect on January 1, 2014.

Financial Plan Impact

Funds are not sufficient in the FY 2013 through FY 2016 budget and financial plan to implement the bill.

Schedule H Credit has remained a narrow program since it has been established. For Tax Year 2010, approximately 8,200 filers, most of them renters (approximately 6,500), claimed Schedule H credit, and approximately 6,400 of these filers received this credit.⁶ The same year, an estimated 52,000 households had incomes less than \$20,000.⁷

The bill will expand the reach of the Schedule H credit in three ways. First, it would replace the current household income limit with a much higher limit on adjusted gross income for a tax filing unit. This will significantly expand the eligible pool. For example, in its first year of implementation, when the eligible adjusted gross income level is \$40,000, 126,000 filers will be eligible to file for Schedule H credit,⁸ and when the income level goes up to \$50,000 in 2016, approximately 150,000 filers would be eligible. Currently approximately 52,000 households are eligible.

Second, the provisions of the bill would no longer require coordination among non-family household members, both in calculating household income, and in sharing the credit. Under current law, only one member of each household could apply, even when the household is composed of non-family members, and eligibility is based on combined household income. Approximately 65

³ A tax filing unit consists of an individual or married couple, who file a tax return, along with any individuals claimed as dependents on that tax return.

⁴ Following tax year 2016, \$50,000 will be adjusted annually based on CPI.

⁵ Effective July 17, 1985 (D.C. Law 6-10, D.C. Official Code § 42-3501.01 *et seq.*)

⁶ The average credit paid was approximately \$570.

⁷ Estimate based on data from American Communities Survey. This number is consistent with the number of taxpayers who claimed Earned Income Tax Credit the same tax year (approximately 52,000).

⁸ This is solely based on income—the actual number could be lower depending on the amount of rent or property tax paid by each filing unit.

percent of the households in the District with incomes \$20,000 or less are non-family, that is people who are not related through family ties or would be eligible, file taxes as a single tax filing unit. Under current law, the members of the household, presumably, make private arrangements to share the credit, and the applicant must make determinations about the household income. Under the bill, each tax unit sharing that household can now apply, thus no coordination among the members of non-family household (for calculating the household income or sharing the credit) is required.

Third, the bill would no longer require that the filer deduct any federal or local rent supplements from the rent payment in calculating the property tax equivalent. Current law requires renter applicants for Schedule H credit to reduce their annual rent payments by the amount of supplements they or their landlords receive. In 2010, almost 22,000 households received federal subsidies under Section 8 Project-Based Rental Assistance Program or Housing Choice Vouchers.⁹ Data from filers for Tax Year 2010 suggests that recipients of federal or local subsidies almost never file for the Schedule H credit. Under the provisions of the bill, these households would no longer have to deduct these support amounts from their annual rent payments, and therefore are much more likely to qualify for a Schedule H credit.

The table below outlines the fiscal impact of the proposed bill:

Estimated Fiscal Impact of Bill 19-164, Schedule H Property Tax Relief Act of 2012					
FY 2013 through FY 2016					
	FY 2013	FY 2014	FY 2015	FY 2016	Four Year Total
Revenue loss due to expanded income levels ¹	0	(\$4,414,647)	(\$4,639,236)	(\$5,177,645)	(\$14,231,528)
Revenue loss due to switch from households to tax filing units ²	0	(\$1,002,465)	(\$1,041,551)	(\$1,527,913)	(\$3,571,929)
Revenue loss due to allowing full participation to recipients of federal or local rent supplement ³	0	(\$5,520,272)	(\$5,735,511)	(\$5,967,249)	(\$17,223,032)
Total reduction in income tax collections	0	(\$10,937,383)	(\$11,416,299)	(\$12,672,807)	(\$35,026,489)

Table Notes

¹ Estimated based on the provisions of the bill and the income tax data for Tax Year 2010. FY 2014 estimate assumes that the maximum tax benefit will be \$1,000, and maximum eligible income is \$40,000 per tax filing unit. Starting from FY 2016, the eligible income is \$50,000 per filing unit. The estimate accounts for the CPI adjustments to maximum credit. The CPI adjustments for maximum benefit are not going to be effective until FY 2017.

² Based on Tax Year 2010 and American Communities Survey data for 2010. Estimate is based on the incremental increase on eligible population due to the switch from household income to adjusted gross income.

³ The estimate assumes that of the approximately 21,900 recipients of federal rent supplements or vouchers, approximately 15,000 will successfully apply for Schedule H credit. The estimate is further reduced to adjust for participation accounted for elsewhere in the model. The average Schedule H credit is estimated at \$436 per successful applicant.

⁹ Center on Budget and Policy Priorities, D.C. Federal Rental Assistance Facts, available at <http://www.cbpp.org/files/4-13-11hous-DC.pdf>, accessed on November 21, 2012.