

Date: February 14, 2019
To: The Honorable Caryn Tyson, Chair
Senate Assessment and Taxation Committee
FROM: Ernest Kutzley, Advocacy Director, AARP Kansas
RE: SB91, Establishing the Golden Years Homestead Property Tax Freeze

Madam Chair and members of the committee, my name is Ernest Kutzley and I am the Advocacy Director for AARP Kansas. Thank you for this opportunity to provide written comments on tax burdens placed on older Kansans. AARP is a nonprofit, nonpartisan organization with a more than 318,000 members living in Kansas. AARP is dedicated to enhancing the quality of life for all as we age.

The mainstay of local taxation is the property tax, which pays for most elementary and secondary public education, as well as many other local services. Some states also collect revenues from property taxes, although it is a relatively minor revenue source for them. Still, states play a central role in local property taxation because they:

- prescribe assessment ratios and practices;
- establish tax-rate limits and property classifications;
- offer property tax relief through “circuit-breaker” programs (which limit the property tax burdens of certain groups and income levels); and
- provide substantial aid to public education, resulting in lower local property tax burdens.

The property tax is the most burdensome tax for many low-income and older people. It affects older people directly as homeowners and indirectly as renters, because landlords may pass on tax burdens in the form of higher rents. The tax is imposed on an illiquid,

indivisible asset, making it difficult to pay for those with limited liquid income. To deal with this problem, all states have implemented various relief programs.

The most common ways in which states provide property tax relief include:

Homestead exemptions and credits—homestead exemptions reduce the amount of assessed property value that is subject to taxation. In 2012, 39 states and the District of Columbia provided homestead exemptions; of these, 14 limit the exemption to low- and middle-income homeowners. Of the 18 states that provide homestead credits, 6 limit credits to low- and middle-income owners. Some states offer combinations of homestead exemptions and homestead credits. While many states offer these benefits only to homeowners with income under a specified threshold, the exempt or credited amount does not vary with income. Homestead exemptions and credits are enacted at the state level, but they reduce the local property tax base, and thus local revenues.

Circuit breakers—taking their name from the mechanism used to relieve an overloaded electrical circuit, circuit breakers usually ease the property tax burden of residents with low and middle incomes by setting a threshold (usually equal to a percentage of income) above which property tax burdens cannot rise. Eligible residents receive a property tax rebate equal to the difference between the amount of property tax otherwise due and the threshold amount. Renters as well as homeowners may be eligible for tax relief. Thirty-four states and the District of Columbia now have circuit breakers, with provisions in 20 of these jurisdictions strictly limited to older homeowners or renters, or to special population groups such as people with disabilities. Elsewhere, state circuit breakers apply to various combinations of the blind, people with disabilities, widows, older adults, and young owners and renters. Of the 34 states that offer circuit breakers, four (Nebraska, New York, North Dakota, and Washington) do so in the form of homestead exemptions that act as circuit breakers (i.e., the value of the exemption decreases as income increases). The other states and the District of Columbia offer circuit breaker tax credits. Most states reimburse local jurisdictions for the property tax revenue lost due to circuit breaker provisions. Circuit breaker provisions tend to be more progressive than

homestead provisions: the amount of circuit breaker relief varies by income, and renters are often eligible.

Property tax deferrals—twenty-eight states and the District of Columbia offer property tax deferrals, primarily to older homeowners or those with disabilities. The deferred taxes are paid upon the sale of the home or the owner's death.

Automatic property tax limitations—in 2012, 45 states and the District of Columbia alleviated or shifted property tax burdens by limiting assessed property values, property tax rates, property tax liabilities, or property tax revenues throughout their jurisdiction. The limits can apply to individual homeowners or local taxing districts, or they can be statewide. Some caps apply only to specific types of taxes such as school property taxes. These limitations apply automatically, without any action on the part of the homeowner.

Over time these caps can be extremely damaging because they erode local governments' revenue and reduce funding for essential police, ambulance, and fire protection services, as well as spending for schools, libraries, and road maintenance. For example, in California, which enacted the first such initiative in 1978 (Proposition 13), the level of education quality has fallen from among the nation's highest to the bottom third.

Setting limits on properties' assessed value can create inequities among owners of similar properties. Property tax caps may also give tax relief to people who are actually able to pay the uncapped tax amount. In resort areas such caps may benefit wealthy out-of-state vacation property owners who do not otherwise contribute substantially to state and local coffers.

In a typical locality, real estate taxes and secondary education represent respectively the major revenue source and the greatest funding need. This may lead to disparities in educational funding among school districts reflecting differences in property values. This means that residents of poorer districts may face higher effective property tax rates yet have inferior educational facilities and services. Diversifying educational funding sources may address both problems.

States should generally avoid arbitrary property tax caps. Property tax relief should be equitable, targeted and cost-effective. AARP supports policies such as “circuit breakers,” which allow low- and moderate-income homeowners burdened by their property tax bill to apply for relief, rather than homestead exemptions by age.

Voluntary property-tax deferral programs should be enacted to allow low-income homeowners to defer property taxes until the property changes hands or the owner dies, especially when there is no other property tax relief program or where tax burdens are high. Any interest charged for the deferral should be at fair and equitable rates.

We appreciate efforts to consider the property tax burdens placed on older Kansans. AARP Kansas understands that the property tax can be burdensome for many low-income and older Kansans. High property taxes can make it harder for older Kansans to pay for basic necessities like groceries, life-saving prescriptions or utility bills. Moreover, we know that the vast majority of older Kansans want to live independently at home as they age. That is why we support property tax exemption programs, often called circuit breaker programs, which are targeted to Kansans who need the most relief. The programs typically correlate a taxpayer’s income with the exemption they are provided, so those seniors or families with lower incomes receive the most assistance.

Currently Kansas offers two such programs to help low income seniors, the Homestead Refund rebate program and the Kansas Property Tax Relief for Low Income Seniors program. We encourage policymakers to review the reach of these existing programs and to consider whether they address current need or can be amended to do so before developing additional programs. This approach will help ensure that relief programs in Kansas continue to be targeted to those Kansans who need them most and that all Kansans can be educated about available programs that provide property tax relief.

As always, we look forward to working with the legislature to implement policies and programs that encourage older Kansans to continue to live their retirement years in our great state.

Respectfully,
Ernie Kutzley