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Property Tax Credits Offered Through State Income Tax Systems

By Sonya Hoo

Increases in housing prices and the corresponding increase in property taxes have led to calls for property tax reform. But many state and local governments rely on the higher tax revenues to fund services. Although property taxes can be very burdensome to some lower-income households, many states ease that burden through a variety of property tax relief programs.

Property tax relief programs include homestead credits, so-called circuit breakers, homestead exemptions, and property tax deferrals. While most property tax relief programs are administered through the property tax system, 17 states and the District of Columbia allow homeowners and renters to claim income tax credits. Property tax relief given through the income tax system allows states to offer relief to residents without directly affecting local revenues. However, that can be problematic because people pay property and income taxes at different times, and because some low-income households do not file income tax returns.

Of the 17 states, six have credits that are available only to the elderly or disabled. Most credits are means-tested. The income limits vary from $5,500 (Arizona) to $190,500 (Connecticut). While seven states have set credit amounts or credits that phase out with income, nine states and D.C. refund property taxes only when the tax exceeds a percentage of the homeowner's or renter's income. Those programs are called circuit breakers because they kick in when the property tax burden becomes too high relative to income. An additional 26 states offer circuit breakers outside the income tax system.

Six states allow an unlimited credit or deduction, but other states cap their credits between $120 (California) and $1,450 (Wisconsin). Additionally, 14 states have property tax credits that are refundable against the income tax, so people who do not owe income taxes can receive a credit.

Property Tax Credits Allowed Against Income Tax Liability (2004)

	Available to Nonelderly	Available to Renters	Maximum Income	Maximum Credit	Refundable
Arizona	No	Yes	$5,500	$502	Yes
California	Yes	Yes	$59,910	$120	No
Connecticut	Yes	No	$190,500	$350	No
D.C.	Yes	Yes	$20,000	$750	Yes
Hawaii	Yes	Yes	$30,000	none	Yes
Illinois	Yes	No	none	none	No
Kansas	No	Yes	$25,000	$600	Yes
Massachusetts	No	Yes	$66,000	$820	Yes
Michigan	Yes	Yes	$82,650	none	Yes
Missouri	Yes	Yes	$25,000	$750	Yes
Montana	No	Yes	$45,000	$1,000	Yes
New Jersey	Yes	Yes	none	none	Yes
New Mexico	No	Yes	$16,000	$250	Yes
New York	Yes	Yes	$18,000	$375	Yes
Oklahoma	No	No	$12,000	$200	Yes
Rhode Island	Yes	Yes	$30,000	$250	Yes
Vermont	Yes	Yes	$47,000	none	No
Wisconsin	Yes	Yes	$24,500	$1,450	Yes

Notes: Maximum income applies to married filing jointly. California and Hawaii have credits available only to renters. Hawaii allows a $50 credit per exemption claimed on income tax return. New Jersey allows the larger of a $20,000 deduction on property taxes paid or a refundable credit of $50. Other states, including Indiana and Massachusetts, also allow deductions. New York allows a maximum credit of $175 for those under 65.

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