INSTITUTE FOR RESEARCH ON POVERTY DISCUSSION PAPERS

170-73

REFORMING HOMESTEAD TAX RELIEF IN WISCONSIN

Marc Bendick, Jr.

UNIVERSITY OF WISCONSIN ~ MADISON

REFORMING HOMESTEAD TAX RELIEF IN WISCONSIN

Marc Bendick, Jr.*

*Department of Economics, University of Wisconsin, Madison. This research was supported in part by funds granted to the Institute for Research on Poverty at the University of Wisconsin by the Office of Economic Opportunity pursuant to the Economic Opportunity Act of 1964. Robert Lampman suggested this topic and provided invaluable guidance. Kenyon Kies and Bruce Biermeyer of the Wisconsin Department of Revenue supplied insight and unpublished data. Responsibility for conclusions and remaining errors is the author's.

July 1973

ABSTRACT

Under a current proposal, Wisconsin's "circuit breaker" system of property tax relief for low-income elderly would be extended to all low-income adults. The system is analyzed as tax relief and as an anti-poverty device. Provisions of the program for the elderly are identified which would create problems in a system covering all ages.

REFORMING HOMESTEAD TAX RELIEF IN WISCONSIN

Marc Bendick, Jr.

In 1964, Wisconsin adopted a limited program of income-conditioned homestead tax relief for its low-income elderly. Thirteen states have followed this lead in adopting "circuit breaker" systems, relief of taxes which are an "excessive" percent of income; and all but four states offer some form of homeowner or elderly property tax relief. The Wisconsin system has expanded to cover more persons and to generate larger payments. In February 1973, Wisconsin's Governor Patrick Lucey proposed a major transformation of the system to extend coverage to all low-income adults.

The decade since 1964 has also been a time of concern with the problem of poverty. A proposal such as Governor Lucey's can usefully be examined as part of the system of transfers as well as part of a program of property taxation. Because benefits are broadly available, income-conditioned, and given as cash once positive tax liability falls to zero, the Wisconsin system can even by thought of as a form of negative income tax.[1] What are its effects? How does a system designed to cover the elderly perform when expanded to cover other age groups? Would the proposed modifications of the system channel the property tax relief to those who need it most? These are the central questions of this paper.

I. Wisconsin's Homestead Program

To be eligible for Wisconsin's current system of homestead tax relief, one must meet four criteria:[2]

(1) A recipient must be a Wisconsin resident 62 years of age or older (or 60 if disabled).

(2) A recipient must have a husband-and-wife or single person "household income" of $5,000 or less. (Household income includes Wisconsin-taxable income, plus net income earned outside the state, alimony and support payments, cash public assistance, gross pension income including social security, nontaxable income from federal government securities, and workmen's compensation and unemployment insurance. Unlike most tax programs, but like welfare programs, joint filing is mandatory.)

(3) At the time of filing, the recipient must not receive old age assistance, aid to the blind, or general assistance.[3]

(4) The recipient must either pay property taxes on an owner-occupied home or pay rent. (Twenty-five percent of rent is assumed to be in lieu of property taxes. Shelter payments in a nursing home and parking fees for a mobile home count as rent. Taxes for 40 acres of a farm are also eligible.)

"Reasonable" property taxes for an eligible person or couple are defined as 0 percent of the first $1,000 of income, 5 percent of the next $500, 10 percent of the next $500, and 14.3 percent of the rest of income up to the $5,000 income ceiling. "Excess" property taxes are actual taxes paid (up to $500) which exceed these "reasonable tax" rates. The state relieves 75 percent of excess taxes if household income is less than $1,000 and 60 percent if income is more than $1,000. Relief takes the form of a credit against state income tax liability or a cash refund if the credit exceeds tax liability. Maximum possible relief (achievable with an income under $1,000 and $500 of excess taxes) is $375.

Table 1 shows revisions of the program over its decade of operation, each time increasing the number of persons eligible and the size of relief

TABLE 1

Incremental Expansion of Wisconsin Homestead Tax Relief

	Calendar Year 1964	1966	1968	1970	1972	Proposed 1973
Eligibility						
Minimum age	65				62	18
Breakeven income	$3000	$3500		$3700	$5000	$7000
Maximum farm (acres)	1	40				80
Computation						
"Reasonable tax" (% of income for $500 increments)	0-5-10-15-20-20	0-3-6-9-12-15-15			0-0-5-10-14.3-14.3-...-14.3	0-0-0-0-0-0-0-14.3-14.3-...-14.3
Maximum Excess Tax	$300			$330	$500	
% of Excess Tax Relieved	75%/50%	75%/60%				80%
Relief Granted						
Claims allowed	30,700	58,700	67,400	70,400		300,500**
Average relief						
Current $	$59.56	$88.59	$90.94	$95.73		$143**
Constant $*	$59.56	$85.02	$84.91	$82.53		$111**
Total cost						
Current $ million	$1.8	$5.2	$6.1	$6.7		$ 43**
Constant $ million*	$1.8	$4.9	$5.7	$6.0		$ 33**

Source: Unpublished data of the Wisconsin Department of Revenue and sources cited in footnotes 2 and 3.

*Deflated by consumer price index to 1964.

**Author's estimate.

payments. While some liberalization of rules was necessary to prevent inflation from moving persons beyond limits set in nominal terms, expansion has occurred even in constant dollar terms.

Table 1 also sets forth provisions of Governor Lucey's proposal.[4] Breakeven income would be raised from $5,000 to $7,000. The portion of a farm eligible for relief would be raised from 40 to 80 acres. Coverage would be extended to those receiving aid to the blind or disabled. "Reasonable taxes" would be changed to 0 percent of income up to $3,500 and 14.3 percent of income thereafter. The proportion of excess taxes relieved would be raised from 75 percent/60 percent to a uniform (notch-free) 80 percent. Most significantly, the current age limitation of 62 would drop to 18. If adopted by the Wisconsin legislature, these changes would first be applied to taxes paid in calendar year 1973.

The Wisconsin Department of Revenue forecasts that the current homestead program for the aged would cost $11 million for taxes paid in 1973. I estimate that the system proposed by Governor Lucey would cost $43 million in that year, that adoption of the proposed age change without liberalizations would produce a system costing $22.5 million, and that adoption of liberalizations but not the age change would produce a system costing $19.6 million.[5] Forty-three million dollars is approximately 3 percent the size of the $1.4 billion state expenditure budget proposed by Governor Lucey for 1974 and approximately 4 percent of total state and local revenues raised by property taxes in Wisconsin each year.

II. The Homestead System as Tax Relief

One motivation for a program such as Wisconsin's is long run defense of the local property tax. Problems with this tax include large per capita differences in local taxable wealth, regressivity, and differentially heavy burdens on certain groups--most notably the aged and farmers--who hold unusually large proportions of their wealth in real property and who have unusually high ratios of wealth to income. To combat these difficulties, proposals constantly bombard the Wisconsin legislature for either property tax exemptions for certain groups (which would erode the tax base) or for categorical assessments (which would violate the principle of tax uniformity).[6]

By financing relief with state funds, the homestead program reduces the effects of differences in local taxable wealth. By offering relief only to low-income persons, the program reduces the overall regressiveness of the property tax. Most importantly, the homestead system relieves very high burdens on selected groups while preserving a broad tax base and uniformity of assessment. Table 2 indicates that over most of the income range under $5,000, property tax levies on the Wisconsin low-income elderly were brought down from much higher levels by the current program to approximately 12 percent of income.

A 12 percent average burden still leaves the Wisconsin low-income elderly a heavily property-taxed subpopulation, however. Table 3 shows that in 1970 the average property tax burden for all age groups and income levels of single family homeowners in the United States was 4.9 percent of income; for the elderly of all income levels, it was 8.1 percent; and for all persons with less than $5000 of income, it was 10.5 percent.

Thus, the current system for the elderly, in achieving a 12 percent average burden, is significantly but only partially successful in bringing

Table 2

Property Tax Payments as a Percentage of Household Income

for Low-Income Elderly Claiming Wisconsin Homestead Tax Relief, 1971

Household Income Group	Average Household Income	Average Property Tax Paid	Average Homestead Relief	% of Tax Burden Relieved	Tax as % of Household Income	
					Before Relief	After Relief
$ 0	$ 0	$467	$278	59	-	-
1 - $499	298	371	233	63	125	46
500 - 999	813	281	183	65	35	12
1000 - 1499	1269	306	149	49	24	12
1500 - 1999	1758	348	146	42	20	11
2000 - 2499	2246	394	136	34	18	11
2500 - 2999	2737	432	117	27	16	11
3000 - 3499	3237	472	96	20	15	12
3500 - 3999	3733	513	75	15	14	12
4000 - 4499	4232	564	50	9	13	12
4500 - 4999	4716	612	22	4	13	13
5000 - over	5786	549	0	0	9	9
Average	$2491	$418	$122	-	17%	12%

Source: Computed from unpublished data of the Wisconsin Department of Revenue

Table 3

Real Estate Taxes as a Percentage of Family

Income for All Single Family Homeowners, 1970

	Real Estate Tax as % of Income			% of Homeowners*	
Income from All Sources	All Ages	65 and Over	Under 65	65 and Over	Under 65
$ 0	16.6	15.8	18.9	4.1	1.4
2000 - 2999	9.7	9.5	10.1	2.9	1.2
3000 - 3999	7.7	8.0	7.2	2.6	1.8
4000 - 4999	6.4	7.3	5.5	2.1	2.3
5000 - 5999	5.5	6.2	5.1	1.4	2.9
6000 - 6999	4.7	5.8	4.3	1.3	3.7
7000 - 9999	4.2	4.8	4.1	2.3	15.0
10000 - 14999	3.7	3.9	3.7	1.8	26.8
15000 - 24999	3.3	3.3	3.3	1.1	19.3
25000 - over	2.9	2.7	2.9	.6	5.4
All incomes	4.9	8.1	4.1	20.2	79.8
Incomes under $5000	10.5	11.0	9.6	11.7	6.7

Source: Modified from tables 2 and 4 in Financing Schools and Property Tax Relief - A State Responsibility, Advisory Commission on Intergovernmental Relations, Report A-40, Washington, January 1973, pp. 17-19.

*Sum of these columns is 100 percent.

the tax on the property of the low-income elderly in line with the national average. The liberalizations proposed by Governor Lucey would complete the job, however, leaving an average tax burden on the elderly of approximately 5 percent.[7]

III. Equity in the Current System for the Elderly

A typical household covered by the Wisconsin homestead system is composed of an elderly person or couple living independently on a small retirement income. If all aged taxpaying units fit this pattern, there would be little trouble with equity considerations, ensuring that equal benefits go to equally needy persons.[8] In practice, varying circumstances raise difficulties.

One anomaly arises when individuals other than husbands and wives share a home, for example, elderly sisters, or friends, or adults with their aged parents. If a person eligible for homestead relief owns the home and pays taxes in return for equivalent dollar value in food, then persons who are, in welfare terms, "better off" than those who have not made such arrangements will receive similar tax relief. "Doubling up" families and concentrating property tax payments in the hands of eligible persons can lead to higher relief payments to these individuals than is in line with their effective income.

The current law denies relief only to those who receive title primarily for the purpose of collecting relief. That would not rule out the case of an elderly person who has owned a home for many years and then has adult children move in with him or an elderly person who invites a friend to share the home he already owns. To increase equity, an imputed rent could be added to household income for persons other than family members sharing the homestead. This is done in the British system of rent rebates for low-income families. And the income of all family members, not just husbands and wives, could be pooled in determining household income when relatives share the homestead. This was the provision in the Wisconsin law when originally passed in 1963. It is also the provision in the Advisory Commission on Intergovernmental Relations model statute for homestead relief.[9]

A second source of equity difficulties in the homestead system is the exclusion of intrafamily transfers from the definition of household income. An elderly person with small income of his own who receives regular large gifts from adult children would still be eligible for relief out of proportion to his actual level of living. Overcoming this inequity requires that intrafamily transfers be added to the definition of household income. This would be in line with the practice in public assistance programs.[10]

IV. Equity in the Proposed System for All Ages

The situation of 18- to 21-year-old persons brings out the importance of the intrafamily transfers problem in the proposed all-ages homestead system. The proposed law excludes from eligibility any person who has been claimed as a dependent on a federal income tax form in the filing year or previous two years. The intent of the provision is to exclude persons such as college students who have low incomes of their own but who are supported by parents.

To the extent that college students are supported by parents, excluding them does increase the focus on persons in truly needy circumstances.

It is rash, however, to assume that anyone recently a dependent continues to receive intrafamily gifts. An eighteen-year-old person might have been listed as a dependent in one year but be completely independent the next for any of a number of reasons: having been married or orphaned, for example. To the extent that the young adult is independent, equity requires that he be eligible for the program. The extent to which he is not independent can be measured by actual intrafamily gifts. The solution is to drop the ad hoc three-years-since-a-dependent rule and simply include intrafamily transfers in the definition of household income.

A second source of equity difficulties in all-ages system is variation in family size. The Social Security Administration, in defining "poverty threshhold income," determines the amount of income needed to sustain a family unit at nonpoverty levels of living according to the number of members of the household. While $1,635 was adequate in 1967 to raise a single nonfarm person above the poverty line, $5,430 was needed to give an equivalent per capita level of living to that person, his spouse, and five children.[11]

Aged households generally consist of either an individual or a couple. While it is inequitable to treat a couple of a given income as having the same per capita level of living as a single person of the same income, it is not so serious a distortion as to make the same assumption about a single person and a family of ten. When the homestead program is extended to cover families of child-rearing ages, income becomes an inadequate measure of the family's need for tax relief.

The most direct method for taking account of family size in determining need is to use as the measure of household well-being the "welfare ratio" instead of household income.[12] This is the ratio of family income to poverty threshhold income for a family of that size. A family of two with a welfare ratio of .9 and a family of twelve also with a welfare ratio of .9 have identical per capita level of living though their incomes are different.

The Advisory Commission on Intergovernmental Relations model statute for homestead relief offers an alternative adjustment for family size. It makes the computation of "reasonable tax" a function of state income tax liability, which is adjusted by the number of personal exemptions. Of the two states which offer property tax relief to all ages, New Mexico uses the ACIR approach to take account of family size while Oregon makes no adjustment.[13]

A measure of the degree of horizontal equity in a homestead system is the range of relief given to persons of essentially identical need. As a measure of relief given, I use relief received as a percent of poverty threshhold income for the recipient family (proportion of poverty income gap filled by the relief). As a measure of need, I use the welfare ratio. How broad is the range of benefits received in a narrow band of welfare ratios, namely that from .8 to 1.2? Under the current system for the elderly only, the range is 8 percent to 0 percent. Under Governor Lucey's proposal, the range would be 12 percent to .5 percent; the range is broader because of increased family size variability in an all-ages system. Adoption of the proposed liberalizations without the age change would lead to a range of 12 percent to 10 percent, narrowing the range by significantly increasing the generosity of lowest transfers. Adoption of the age change without the rule liberalization generates a range of 10 percent to 0 percent.

V. Target Efficiency

Total cost of a transfer program such as homestead relief is made up of administrative costs, money distributed to target persons, and money distributed to nontarget persons.[14] The ratio of money received by target persons to total program cost is then a measure of "target efficiency."[15] Let us take as the target group of the homestead program those in pretransfer poverty by the Social Security Administration standard.

On this important measure, the current Wisconsin program for the elderly has a target efficiency of 49 percent; by my estimates, $5,293,350 would be delivered to nonpoor persons in 1974 out of a total cost of $11 million. This figure can be compared to 40 percent for U.S. public social welfare expenditures as a whole, 93 percent for public aid, and 15 percent for across-the-board social securitv increases.[16]

Governor Lucey's proposal to revise the system increases target efficiency to 52 percent. This change is the net result of a decrease in target efficiency (due to rule liberalization) and an increase in target efficiency when the age limit is dropped (because younger families of equal income to aged families are larger and therefore more likely to be poor). A system with the age change alone and no liberalization would score 88 percent, while liberalizations in the absence of the age change would give a system with a score of 45 percent.

VI. Program Coverage

To reverse our perspective on the distribution of program benefits, let us consider not the proportion of program money going to the poor but the proportion of the poor receiving program money. The 1970 Census indicates that there are 79,683 poor families plus 129,559 poor individuals in Wisconsin. The current homestead system for the elderly paid 34,600 claims in 1970 to poor households, thereby reaching 19 percent of these units. Adopting Governor Lucey's proposal for age change plus rule liberalization would raise this proportion to 87 percent. The age change alone would generate coverage of 84 percent, while the liberalizations alone would generate 28 percent.

Governor Lucey's two main proposals for rule liberalization are to raise the maximum eligible income from $5,000 to $7,000 and to reduce the percent of income paid as property tax that is considered to be "reasonable." The persons brought into coverage by the first rule change are nearly all nonpoor; only very large families have poverty threshhold incomes larger than $5,000. Liberalization of the reasonable tax rule is useful in reaching the poor, however. Under the current rules, average property tax rates as high as 9 percent of income are still called "reasonable" (for an income of $4,999); and only incomes less than $2,000 have a "reasonable tax" below the 5 percent national average. To loosen these standards, as the Governor has proposed, would add many poor persons and very few nonpoor persons to the program. Coverage of the poor, target efficiency, and total effectiveness of the program would all be increased.

One additional source of coverage difficulties is the procedure for filing for homestead benefits. Relief is granted only to those who apply for it in conjunction with the Wisconsin income tax but on a separate (and fairly complex) form. Apparently, approximately 30 percent of those eligible under the current system for the elderly fail to file.[17] This reduces the overall anti-poverty effectiveness of the program, and, since poorest persons are among those most likely not to file, equity is impaired as well. A high payoff can be expected from efforts to bring the program to potential filers' attention and to facilitate filing by poorly educated persons. For example, it would be reasonable in an all-ages system to incorporate the homestead relief form into the standard state income tax form.

VII. Toward a Modified All-Ages System

Table 4 summarizes the quantitative comparisons we have made. They suggest the following: The current homestead system covering only the elderly under tight rules covers only 19 percent of the poor and relieves only part of the excess tax burden on those covered (an average of 12 percent of income is paid as property tax). Governor Lucey's proposal covers more of the poor (87 percent) and relieves the rest of the excessive tax burden (average tax of 5 percent of income, the national average). However, it will cost $43 million, four times the cost of the current program , scatters its benefits widely to poor and nonpoor (target efficiency 52 percent), and suffers from considerable horizontal inequity because it fails to adjust for family size (benefits of from 12 percent of poverty gap to .5 percent of poverty gap for families of essentially the same welfare ratio).

Enacting only the liberalization part of the Governor's proposal is not a satisfactory alternative. It would keep the total budget more in line with state revenue available now for this purpose (program total cost would be $19.6 million) and would dramatically reduce the horizontal inequities within the program (to a range of 12 percent to 10 percent variation among equally well off families), and generously relieves tax burdens (brings the elderly to the 5 percent national average). But it does so at the expense of giving a lot of money to nonpoor (target efficiency 45 percent) and leaves the non-aged poor completely unaided (coverage only 28 percent of the poor of all ages).

Adopting Governor Lucey's suggestion for expansion of the system to all ages but retaining the current tight eligibility rules presents

Table 4

Performance of Alternative Wisconsin Homestead

Tax Relief Programs - Simulated for 1974

Alternative	Program Cost ($ million)	% of Poor Receiving Relief	Property Tax Paid as % of Income*	Horizontal Equity**	Poverty Target Effectiveness
Current system for the elderly	11	19	12	8% to 0%	48%
Lucey proposal for liberalization and coverage of all adults	43	87	5	12 to .5	52
Liberalization but retention of age 62 cutoff	19	28	5	12 to 10	45
Cover all adults with current rules (no liberalization)	22	84	12	10 to 0	88
Lucey proposal with modification	24	79	5	5 to 0	100

*Can be compared with the national average of 5%.

**Range of transfers (expressed as % of poverty gap) for one level of welfare (welfare ratio in the narrow band .8 to 1.2).

problems, as well. It successfully constrains total cost (to $22.5 million), directs most of the money to poor persons (target efficiency 88 percent), and covers 84 percent of the poor. But it suffers from great horizontal inequity within those covered (a range of 10 percent to 0 percent of poverty gap closed at the welfare ratio around 1.0) and relieves excess taxes only partially (the elderly retain an average tax burden of 12 percent).

What is called for is a further alternative, a homestead program which covers all ages, provides more liberal benefits than the current program, yet takes account of the new anomalies that arise as the result of covering a population of all ages and focuses relief more sharply on the poverty population. The Governor's proposal would fit this description, if it were modified in three ways:

(1) Adjust the measurement of household income to take account of family size.

(2) Include intrafamily transfers as part of household income for family members not sharing a homestead. Extend eligibility to persons listed as dependents during the previous three years.

(3) Pool incomes of all related individuals in a homestead as household income, rather than just counting income of husbands and wives. Add imputed rent for nonfamily members sharing a household.

I have estimated the effects of a particular version of this general approach, one which uses the welfare ratio as the measure of eligibility and need for relief and cuts off eligibility at a welfare ratio of 1.0. As Table 4 indicates, the program very accurately "rifles in" homestead relief to the poor. It achieves a target efficiency of virtually 100 percent (all money except administrative expenses go to the poor) and a coverage of 79 percent. It offers a narrow equity range (5 percent to 0 percent), while handling the full range of family sizes. And because it focuses benefits so sharply, it can do all this for an annual program cost of $24 million.

VIII. Conclusion

Wisconsin's homestead tax relief program for the elderly was a pioneering program when first enacted a decade ago and a good program both from the point of view of property tax viability and poverty relief. Moves to expand coverage of the program to persons of all ages and to liberalize benefits are sound ones from the same two points of view. However, when the program must deal with all ages, new situations arise, and old difficulties are exacerbated. A number of revisions of the rules of the program, proposed in this paper, are necessary to complement the liberalization and age expansion in order to preserve and increase the equity and effectiveness of the homestead program.

Footnotes

[1]In the "incremental" style of American politics, negative taxation is being initially adopted in limited programs at the state level on subjects of long-standing public concern, rather than in more dramatic forms such as the Nixon Family Assistance Plan. For extensions of negative rates to other regressive taxes such as sales taxes and social security taxes, see John Shannon, "Tax Relief for the Poor," Proceedings of the National Tax Association, 1967, pp. 577-594.

[2]See Billy D. Cook, Kenneth E. Quindry, and Harold M. Groves, "Old Aged Homestead Relief-The Wisconsin Experience," National Tax Journal, 19 (September 1966): 319-324; Kenneth E. Quindry and Billy D. Cook, "Humanization of the Property Tax for Low Income Households," National Tax Journal, 22 (September 1969): 357-365; and section 71.09(7), Wisconsin Statutes.

[3]Persons on public assistance already receive help in paying property taxes, which are included in computing their "needs budget."

[4]Sections 355 and 356, Assembly Bill 300 (The Executive Budget Bill for the 1973-1975 Biennium), Wisconsin Legislature, February 1973.

[5]Derivation of these and other estimates is given in Appendix II. Program outlays in the first few years of operation might run lower than these estimates, due to time lags in public awareness of the program and other "phasing in" difficulties.

[6]As of February 1973, four states had no form of property tax relief for the elderly, eighteen states granted tax exemptions; six states gave differential assessments; eight states offered tax credits; and fourteen states operated "circuit breaker" systems of income-conditioned credits and negative taxes. See "Big Breakthrough for Circuit-Breaker," Information Bulletin 73-2, Advisory Commission on Intergovernmental Relation, Washington, February 1973; and Frederick D. Stocker, "Property Tax Exemptions for Farmers and the Aged," in The Property Tax: Problems and Potentials (Princeton, N. J.: Tax Institute of America, 1967) pp. 283-294.

[7]At an income of $7,000, the 14.3 percent marginal rate of reasonable tax implies an average rate of 7 percent. The range of post-relief rates is 0 percent (under $1,500 income) to 7 percent, roughly averaging the national 5 percent rate.

[8]In State ex. rel. Harvey vs. Morgan, 30 Wis (2d) 1 (1966), the court held that the homestead program was a relief measure rather than a property tax law. Hence, unequal treatment of equals was not forbidden by tax uniformity provisions of the Wisconsin constitution. It also ruled that persons receiving benefits under the aged-only system were a "reasonable classification,"

[8](cont.) so that the program implied no denial of equal protection. The effect of the ruling is to reduce tax equity to a desirable characteristic of the system rather than a legal requirement.

[9] State-Local Finances: Significant Features and Suggested Legislation, Washington, Advisory Commission on Intergovernmental Relations, 1972, pp. 397-413.

[10] For more on definitions of income and family unit, see William Klein, "Familial Relationships and Economic Well-Being: Family Unit Rules in a Negative Income Tax," Harvard Journal of Legislation 8 (1971): 361-405; and William Klein, "The Definition of 'Income' under a Negative Income Tax," Institute for Research on Poverty Discussion Paper 111-72, University of Wisconsin, 1972.

[11] Mollie Orshansky, "The Shape of Poverty in 1966," Social Security (March 1968): 4.

[12] See Martin David, "Welfare, Income, and Budget Needs," Review of Economics and Statistics (November 1959): 393-399; and Benjamin Bridges, "Family Need Differences and Family Tax Burden Estimates," National Tax Journal 24 (December 1971): 423-447.

[13] Appendix I sets forth provisions of circuit-breaker systems in thirteen states. Besides the features mentioned in the text, special note should be taken of the provision in Ohio and West Virginia for direct payment of property taxes by the State. This procedure eases a potential cash flow crunch on the homeowner between payment of property taxes in one year and a homestead relief rebate the following year.

[14] State-Local Finances, p. 235, estimates the administrative cost of the homestead program at $1.50 per claim.

[15] Burton A. Weisbrod, "Collective Action and the Distribution of Income: A Conceptual Approach," in Public Expenditures and Policy Analysis, edited by Robert Haveman and Julius Margolis (Chicago: Markham, 1970) p. 125.

[16] The first two figures are from Robert J. Lampman, "Transfer Approaches to Distribution Policy," American Economic Review 60 (May 1970): 271. The third figure is from Poverty Amid Plenty, Report of the President's Commission on Income Maintenance, Washington, 1969, p. 107.

[17] This is a Wisconsin Department of Revenue estimate, adjusting from a 50 percent estimate in The Needs of Wisconsin's Older People, Wisconsin Department of Health and Social Services, December 1971. The highest rate of nonfiling is found among urban renters.

Appendix I

Circuit Breaker Homestead Property Tax Relief in Thirteen States
As of February, 1973

State	Eligibility	Minimum Age	Breakeven Income	Form of Relief	Maximum Relief	Relief Formula
Arkansas	Homeowners	65	$5500	State income tax credit or rebate	$400	$400 relief for income under $1500, $175 for income of $5500, graduated between
California	Homeowners*	62	$20000 gross $10000 net	Rebate	--	96% of tax on first $7500 of value for income under $1400, 4% of tax for income over $10,000, graduated between
Colorado	Homeowners; renters at 10% of rent	65	$2400 single, $3700 married; $20000 net worth	State income tax credit or rebate	50% of tax or $250	Relief is reduced by 10% of income over $500 ($1800 for couples).
Illinois	Homeowners; renters at 25% of rent	65 or disabled	$10000	Rebate	$500 less 5% of income	Relief of taxes over 6% of income under $5000 and 7% over $3000
Kansas	Homeowners	65	$6000	State income tax credit or rebate	$330 is maximum tax relieved against	Same as Wisconsin, with different percentages
Maine	Homeowners; renters at 20% of rent	65 (62 for women)	$4000; $30000 net worth	Rebate	Total tax or $280	Relief is 7% of ($4000 minus income)
Minnesota	Homeowners; renters at 20% of rent	65	$5000	State income tax credit or rebate	$800 is maximum tax relieved against	Relief of from 100% to 8% of tax paid, depending on income

Appendix I (cont.)

New Mexico	All citizens	none	$6000	State income tax credit or rebate	$133	Relief, conditioned on income and number of personal exemptions, is given for all state and local taxes presumed paid
Ohio	Homeowners	65	$8000	State payment of property tax	—	70% reduction for incomes under $2000, 40% reduction for incomes over $6000
Oregon	Homeowners	none	none	State income tax credit or property tax reimbursement	$400 for income under $1500 $100 for income over $8000	Relief of taxes over 3% of incomes for incomes under $1500, 7% for incomes above $8000
Pennsylvania	Homeowners	65 or disabled; widows, 50	$7500	Rebate	$200	Relief of 100% of taxes for incomes under $1000, 10% for incomes over $6000
Vermont**	Homeowners; renters at 30% of rent	65	$4286	State income tax credit or rebate	$300 is maximum tax relieved against	Relief of taxes in excess of 7% of income, adjusted by a local rate factor
West Virginia	Homeowners; renters at 12% of rent	65	$5000	State payment of property tax	$125 is maximum tax relieved against	Relief of 100% of taxes above a % of income ranging from .5% to 4.5%

Source: Adapted from Table 2 in "Big Breakthrough for Circuit Breaker," Information Bulletin 73-2, Advisory Commission on Intergovernmental Relations, Washington, February 1973, and Table 103 in State-Local Finances: Significant Features and Suggested Legislation, Advisory Commission on Intergovernmental Relations, Washington, 1973.

*California renters of all ages and income levels are offered an income-conditioned state income tax credit independent of actual rent paid.

**Vermont and Michigan have adopted all-ages circuit breaker systems since February 1973.

Appendix II

Computation of Costs and Distribution

No claim is made for more than order of magnitude accuracy of these estimates, and they have more validity as comparative numbers than as absolute values.

1. Cost of the Governor's Proposal

Step 1: Identify those in Wisconsin in 1969 in the relevant income range (from 1970 Census of Population, revised as of March 1973, Table 57):

	Number of Families			Number of Unrelated Individuals		
Income	Urban	Rural Nonfarm	Farm	Urban	Rural Nonfarm	Farm
$ 0-$999	9349	4987	2793	65045	16929	2892
1000-1999	13971	10683	3690	74498	18721	2248
2000-2999	22936	14498	5483	41467	10027	1391
3000-3999	25608	14398	6427	28627	6038	1059
4000-4999	26486	13926	6769	20756	3923	676
5000-5999	28766	15670	7592	17961	3380	653
6000-6999	33506	17836	7258	15386	2615	399

Step 2: Subtract from this population those receiving public assistance (reported in Census table 205). Drop 30 percent from each category for nonfilers. For farm families and individuals, reduce by some proportion (ranging from 5 percent to 50 percent) for acreage over 80 acres. To take account of inflation and real growth between 1969 and 1974, move 30 percent of each income level into the next higher level. Drop 5 percent of all unrelated individuals as ineligible by the three-years-since-a-dependent rule. Then sum across all categories to get a projected number of taxpaying units at each income level who will receive homestead relief:

Income	Projected 1974 (All-Ages) Number of Taxpaying Units Receiving Homestead Relief	Actual 1971 Filers
$ 0 - $999	35407	3631
1000 - 1999	57320	24999
2000 - 2999	47939	28798
3000 - 3999	44939	16035
4000 - 4999	39581	6524
5000 - 5999	36701	0
6000 - 6999	38542	0
Total	300429	79987

A verification of the reasonableness of these numbers is given by the final column of numbers, which is the number of filers in 1971 (under the 65 years and over scheme with tight eligibility rules). It is easy to imagine that an increase of approximately 4 times would occur with the age change and the rule liberalization.

Step 3: Compute the maximum relief a unit could receive at each income level (i.e. with $500 of excess taxes) under the proposed liberalized rules. Then divide this number by 1.75 to reduce the maximum possible relief to an average relief. (In 1971 elderly returns, the observed ratio of maximum to average relief was 1.25. This was changed to 1.75 as a "best guess" for all ages since the elderly consume more of their income as housing than does the general population. To indicate a range, 1.25 and 2.50 are used as extreme values.) Reduce all payments 20 percent to take account of property tax relief from programs other than homestead, including revenue sharing. This gives estimated average relief payments for each income level.

Income	Projected 1974 Average Homestead Relief Payment			Actual Payments in 1971
	at 1.75	at 1.25	at 2.5	
$ 0 - $999	$183	$256	$128	$191
1000 - 1999	183	256	128	147
2000 - 2999	183	256	128	127
3000 - 3999	183	256	128	88
4000 - 4999	130	182	91	41
5000 - 5999	78	110	54	0
6000 - 6999	26	37	18	0

The final column supplies a reasonableness check on these figures by showing the average relief granted at the various income levels under the tight-ruled system for the elderly in 1971.

Step 4: Multiply the number of eligible units at each income level by the average relief at that level, then sum over all income levels. For the "best guess" ratio of 1.75, this gives $42,976,000 as an estimated total cost:

Income	Total Relief
$ 0 - $999	$ 6479481
1000 - 1999	10489560
2000 - 2999	8722837
3000 - 3999	8223837
4000 - 4999	5145530
5000 - 5999	2862678
6000 - 6999	1002092
Grand Total	$42976015

The two alternative ratios of 1.25 and 2.50 yield estimates of $60,181,786 and $30,034,921.

2. Cost of Age Change with No Rule Liberalization

The procedure is similar to that in estimating the cost of the entire proposal, except that eligibility stops at $5000 and the maximum transfer (step 3) is computed using the old rules.

3. Cost of Rule Liberalization with No Age Change

Take the actual number of returns filed by the elderly in 1971. Increase the number of filers 10 percent in each category for the age drop to 62 and another 10 percent for the increased elibility due to rule liberalization. Estimate the number of filers in the income ranges $5,000-$5,999 and $6,000-$6,999 at 5,000 and 4,000, respectively. Then proceed as before, except that since these are all elderly filers, assume a ratio of maximal relief to actual relief of 1.25.

4. Cost of Modified Proposal

Take 1970 Census data on number of persons below poverty level (table 207):

Welfare Ratio	Family Heads	Unrelated Individuals
0 - .5	26951	55737
.5 - .75	23049	40352
.75-1.0	30196	33787

Move 10 percent up in each category to the next higher category for prosperity and inflation. Drop 30 percent from each category for non-filers. Assume transfers per filer are the same as under the liberalized rules and 1.75 ratio for $0-$4,000, $4,000-$5,000, and $5,000-$6,000, respectively for the three levels of welfare ratio (i.e., $229, $163, and $98). Multiply number of filers by average relief, then sum over all welfare ratio levels to get total cost.

5. Estimates of Target Efficiency and Coverage

The 1970 Census table 206 gives the number of households at each family size and income level in Wisconsin. Assume the following proportions of each cell are in poverty:

	Number of Family Members					
Income	1	2	3	4	5	≥6
Orshansky 1970 Poverty Threshhold	$1840	$2383	$2924	$3743	$4415	$4958 (for 6)
$ 0 - $999	100%	100%	100%	100%	100%	100%
1000 - 1999	100	100	100	100	100	100
2000 - 2999	0	50	100	100	100	100
3000 - 3999	0	0	0	75	100	100
4000 - 4999	0	0	0	0	50	100
5000 - 5999	0	0	0	0	0	100
6000 - 6999	0	0	0	0	0	25

This gives the number of households at each income level who are below poverty. Assume that the same proportion of dollars go to poverty households as poverty households are a proportion of all households at that income level. Divide total dollars to the poor by total program cost to get target efficiency. The number of poor households receiving transfers (the number of households receiving transfers times percent of households which are poor) divided by total households gives coverage of poor households.