

To: Senator Ann Cummings, Chair
Senate Finance Committee
From: Mark Perrault, Chloe Wexler
Joint Fiscal Office
Date: January 30, 2019
Subject: S.52 – Education Income Tax Proposal

Current Law

Under current law, resident homeowners with household income under \$90,000 may pay the *lower* of: (1) the education tax on their household income or (2) the education property tax on the value of their housesite.

Resident homeowners with household income over \$90,000 may pay the *lower* of: (1) the education tax on their household income plus the education property tax on the value of their housesite in excess of \$225,000 or (2) the education property tax on the value of their housesite. In practice, the education property tax on housesite value is lower if household income exceeds \$132,750.¹

Proposal

You asked us to estimate the amount of additional education tax revenue that would be raised if resident homeowners who are now required to pay the education property tax on their housesite paid the *higher* of: (1) the education property tax on their housesite or (2) the education tax on household income. For this purpose, the amount of household income subject to the education tax would be limited to \$1 million.

In addition, you asked us to estimate the amount of additional education tax revenue that would be raised if your proposal was applicable only to resident homeowners with household income over \$150,000.

Analysis

As indicated on the following table, requiring resident homeowners with household income over \$132,750 to pay the *higher* of the education property tax on their housesite or the education tax on household income would have raised an additional \$36.0 million on 14,080 housesites in FY2018. More than 55% of the 25,551 housesites with household income over \$132,750 would have paid a higher education tax under your proposal. The average increase would have been about \$2,557.

¹ Note that this household income threshold changes annually based on the relationship between the tax rates on homestead property and household income and the housesite value limit. The housesite value limit was reduced from \$250,000 to \$225,000 in FY2018.

If the household income threshold was raised from \$132,750 to \$150,000, your proposal would have raised \$2.6 million less and 2,844 fewer housesites would have been affected. An additional \$33.4 million would have been raised on 11,236 homeowners. The average increase on housesites with household income over \$150,000 would have been about \$2,973. Additional information on the impact of your proposal is presented in the following table by household income class.

Household Income	Number of Housesites	Average Equalized Housesite Value	Aggregate Property Tax Paid (Millions)	Average Property Tax Paid	Additional Tax Due on Income (Millions)	Average Additional Tax Due on Income	Number of Taxpayers Subject to Additional Tax
\$132,751 - 150,000	7,283	\$289,061	\$31.5	\$4,321	\$2.6	\$913	2,844
\$150,001 - 200,000	8,557	\$321,001	\$41.3	\$4,822	\$4.6	\$1,124	4,127
\$200,001 - 300,000	5,740	\$379,574	\$32.9	\$5,734	\$7.0	\$1,893	3,708
\$300,001 - 500,000	2,667	\$468,456	\$18.9	\$7,068	\$7.9	\$3,637	2,170
\$500,001 - 1,000,000	944	\$560,819	\$8.0	\$8,452	\$8.5	\$9,511	891
Over \$1,000,000	360	\$753,497	\$4.1	\$11,298	\$5.4	\$15,803	340
Total	25,551	\$2,772,408	\$136.5		\$36.0		14,080

Caveats:

- Since resident homeowners with household income over \$132,750 are not required to report household income under current law, adjusted gross income (AGI) is used as a proxy for household income.
- A resident homeowner’s “housesite” is limited to two acres of contiguous land. A resident homeowner whose homestead consists of more than two acres pays the education property tax on their excess land regardless of household income.
- This analysis is based on education taxes paid in FY2018.