

# Property Tax Credits and Maximum Household Income

House Committee on Ways and Means

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# Outline

- Review of income sensitivity under current law
- Maximum household income for income sensitivity
- Considerations



# Review of Income Sensitivity Under Current Law



# Review of the Property Tax Credit Under Current Law

- The homestead property tax has a credit based on income
- The credit is applied to the following year's tax bills
- The credit is calculated based on the household's income and housesite value

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## Household income

## Property tax credit parameters

Less than or equal to \$47,000

- Property tax credit may be used on the first \$400,000 of the housesite value
- Additional tax relief based on household income is available

\$47,001 - \$90,000

Property tax credit may be used on the first \$400,000 of the housesite value

\$90,001 - \$115,000\*

Property tax credit may be used on the first \$225,000 of the housesite value

Greater than \$115,000\*

Household will not qualify for a property tax credit

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*\*Note: the figure of \$115,000 is not included in statute and is calculated annually – this is the “break even” point in tax year 2025.*



# Overview of the Circuit Breaker

- Households with income under \$47,000 are entitled to a further tax credit if their net property tax burden exceeds a fixed percentage of household income
- This is often referred to as the “circuit breaker”
- The circuit breaker exists for education property tax and municipal property tax
  - The cost of the education circuit breaker is borne by the Education Fund
  - The cost of the municipal circuit breaker is borne by the General Fund

## Net State Education Property Tax Circuit Breaker

Household Income	Tax Cap as % of Income
Less than \$10,000	0.5%
\$10,000 - \$24,999	1.5%
\$25,000 - \$ \$47,000	2.0%

## Municipal Property Tax Circuit Breaker

Household Income	Tax Cap as % of Income
Less than \$10,000	1.0%
\$10,000 - \$47,000	3.0%



# Understanding the Property Tax Credit Lag

- The property tax credit is on a “lag”
- Property tax bills for income-sensitized taxpayers reflect the current year’s homestead property tax bill minus the prior year’s credit

## FY26 Property Tax Bill

Calculated as:

*FY26 homestead property tax  
minus  
FY25 property tax credit*

## FY27 Property Tax Bill

Calculated as:

*FY27 homestead property tax  
minus  
FY26 property tax credit*

## FY28 Property Tax Bill

Calculated as:

*FY28 homestead property tax  
minus  
FY27 property tax credit*



# The Property Tax Credit is an Education Fund Expenditure

- Estimated to cost \$134 million in fiscal year 2027
- Direct cost to the Education Fund, meaning all else equal, property tax rates must be raised to a level that covers its cost
- Total amount is based off the parameters under current law, the homestead and income yields, and individual household circumstances



# Maximum Household Income for Income Sensitivity



# Maximum Household Income for Income Sensitivity

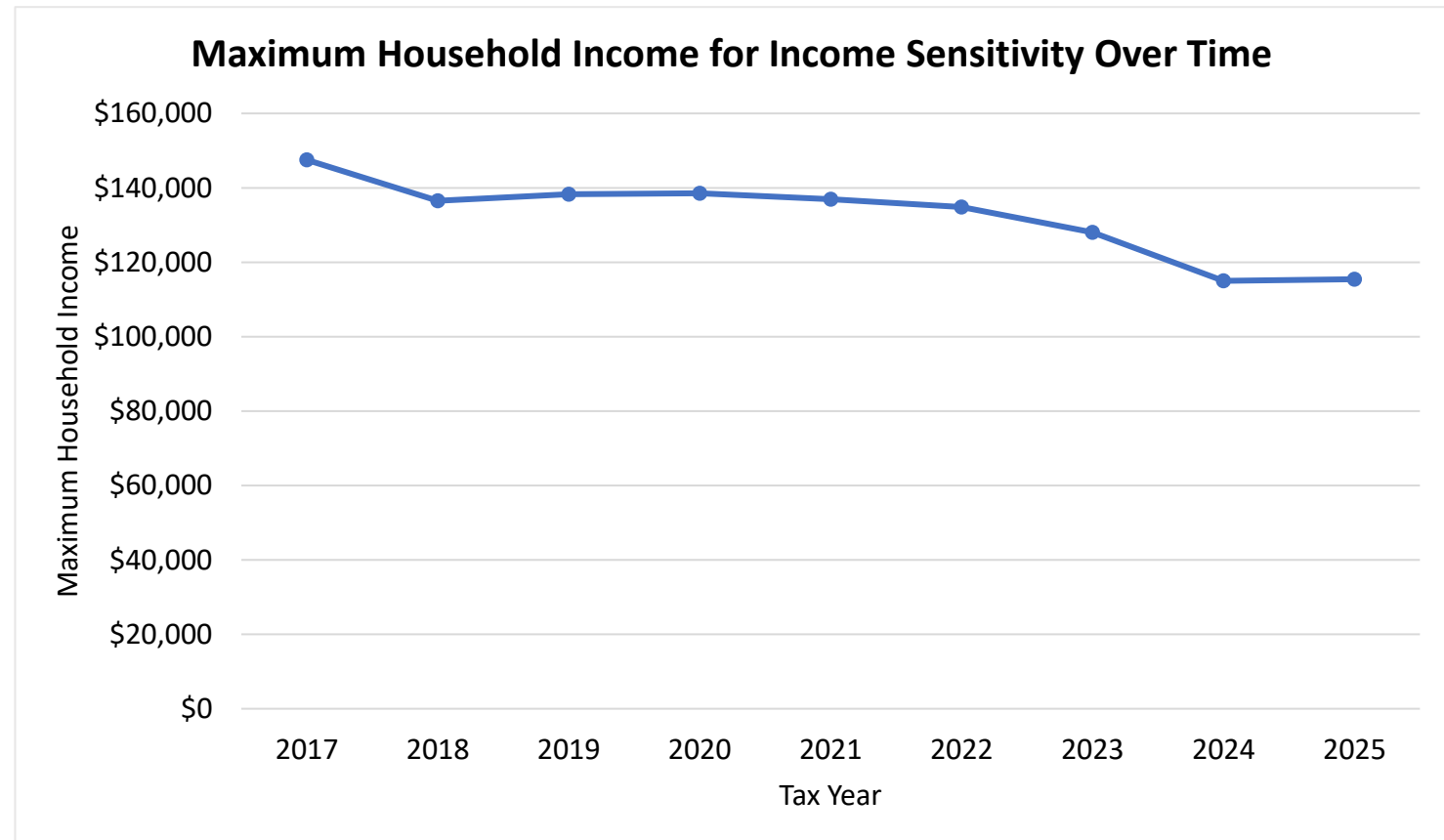
- There is no statutory upper bound for income sensitivity
- The “maximum household income” is the upper limit of household income where a household *may* qualify for a property tax credit
- Annually, the Department of Taxes and JFO calculate the maximum household income for income sensitivity
  - This is essentially solving for the “break even point” at which it will always be cheaper to pay on property rather than on income
  - The break even point is a function of the homestead yield, the income yield, and the \$225,000 housesite value
- The maximum household income has generally declined over time, as property values grow faster than income



# Maximum Household Income Has Generally Declined Over Time

## Maximum Household Income

Tax Year	Maximum Household Income
2017	\$147,500
2018	\$136,500
2019	\$138,250
2020	\$138,500
2021	\$136,900
2022	\$134,800
2023	\$128,000
2024	\$115,000
2025	\$115,400



# Maximum Household Income as Proposed in H.949 Constructs

- Under H.949 as passed by the House:
  - Homestead property yield: \$9,170
  - Income yield: \$12,576
  - Maximum household income: \$108,500
  
- Under H.949 as passed by the Senate:
  - Homestead property yield: \$9,395
  - Income yield: \$12,942
  - Maximum household income: \$109,000



# Policy Levers for Increasing the Maximum Household Income

- Remember:
  - The maximum household income is calculated as the point at which it will always be cheaper to pay on property rather than income
  - The calculation factors in the \$225,000 housesite value cap in current law, the homestead yield, and the income yield
- Policymakers may impact the maximum household income through two different levers:
  - Amending the statutory housesite value for the property tax credit
  - Setting the homestead yield and the income yield



# Amending Statutory Housesite Value Cap to Increase Maximum Household Income

- The maximum household income could be increased by increasing the statutory housesite value cap of \$225,000
  - On May 1, the Department of Taxes proposed increasing the housesite value to \$250,000
- Increasing the statutory housesite value cap would increase the property tax credit for households with incomes greater than \$90,000 (and housesite values higher than \$225,000)
- An increase to the property tax credit would increase its overall cost
  - Absent any other changes in policy, an increase to the overall cost would be borne by all property taxpayers (i.e., “squeezing the balloon”)



# Setting the Homestead and Income Yields to Increase Maximum Household Income

- Because the maximum household income is impacted by the yields, policymakers may choose to set the yields to increase the maximum household income
- This would be done by setting the income average bill change to be lower than the homestead average bill change, which would result in an expansion for all property tax credit recipients
  - The Department of Taxes and JFO cannot estimate the overall cost of setting differing yields
  - Absent any other changes in policy, an increase to the overall cost of the property tax credit would be borne by all property taxpayers (i.e., “squeezing the balloon”)



# Considerations



# Timing Considerations

- Either policy lever would impact property tax credits earned in fiscal year 2027, the impact wouldn't be felt by property taxpayers (or the Education Fund) until fiscal year 2028
- Either policy lever would continue to impact future years
  - Increasing the statutory housesite limit would impact the calculation of property tax credits until there is another statutory change
  - Increasing the income yield would change the relationship between homestead and income bills
    - Because policymakers only consider the average bill change compared to the prior year, any change to this relationship would continue



# Squeezing the Balloon

- All else equal, increasing the property tax credit for one group of property taxpayers increases property taxes for all others
- In some instances, an increase of the property tax credit does not result in a decreased liability for the property tax payer
  - A property tax payer's homestead liability may increase to cover the increased property tax credit more than their property tax credit is increased



# Act 73 Considerations

- Contingently effective, Act 73 (2025) repealed the property tax credit and replaced it with a homestead exemption that is tiered based on household income
  - Any changes to the property tax credit would not impact the homestead exemption

