AARP's Public Policy is determined by our all-volunteer Board of Directors which takes recommendations from our National Legislative Council. Our public policies are codified in the AARP Public Policy Book and reflect our principals on the issue of state and local real property taxation.

The property tax is the single most burdensome tax for many low-income and older persons. It is one tax that does not depend on how much income the owner has at their disposal but only on the evaluation of an asset. Although some seniors would rather pay the tax than have it come out of the pockets of their children or grandchildren, property taxes are a true burden on many older Pennsylvanians. They impact older people directly as homeowners but also indirectly as renters, because landlords pass on at least part of any property tax in the form of higher rents. AARP policy emphasizes that States should broaden their method of financing public education, thereby taking some of the burden off of the regressive property tax.

AARP recognizes that the need for quality public education is also a critical issue in Pennsylvania. AARP membership begins at 50. Many of our younger members have children in our public schools. Our older members have grandchildren and in many cases great-grandchildren in our public schools. AARP members care tremendously about the quality of education. We want the youth of today to have the best opportunities to succeed because we know the future of Pennsylvania and indeed the United States depends on their ability to get a quality education.

But AARP is concerned about the methods of financing this quality education in Pennsylvania today. Property taxes are a true burden on many older Pennsylvanians. One of the biggest concerns of AARP members is the ability to remain in the homes where they raised their families. Many of these working families have lived in the same home for 30 or 40 years and have successfully paid their mortgages and kept the property maintained. But in retirement years, as they live on a fixed income, they see property taxes increasing dramatically. This is explained in part because older homeowners purchased their homes at a time when home prices were lower and their working-incomes higher. Over time these homes have increased in value. Because of their relatively lower retirement level incomes, older homeowners have fewer liquid resources available to pay their annual property tax.

Why do many older homeowners not move to a lesser valued home more suitable to their financial ability? There are high psychological costs of moving for many older homeowners. They have often lived in their homes for longer periods that younger more mobile homeowners and consequently have stronger attachments to their home and neighborhood. AARP surveys have found that close to 85% of the senior population prefer to remain independent and age-in-place where they have raised their families.

Property taxes do represent the most stable form of revenue for school districts, an important factor in long-term budgeting. Property taxes also represent one of the most important revenue sources for local governments. According to the Census Bureau, during fiscal year 2009, about one-half of all local general revenue sources (excluding state and federal aid) came from local property taxes. If you also include state and federal intergovernmental aid to local governments, property taxes constituted 29 percent of all general revenues.

States employ a variety of methods for reducing residential property tax burdens, particularly for seniors. These include property tax relief programs; caps, limits, or freezes; and more favorable tax treatment of residential property than commercial or industrial property. Some of these programs are open to all homeowners; some are only open to older or disabled homeowners; some are limited by income or asset requirements. The general names of these programs are homestead exemptions, homestead credits, circuit breakers, and property tax deferral programs.

Homestead exemptions are the most common program for reducing property taxes. Homestead exemptions are reductions in the amount of assessed property values for owner-occupied homes. About 39 states and the District of Columbia offer these exemptions.

In contrast to homestead exemptions (in which property tax relief is the same for all eligible households), circuit breaker programs offer property tax credits that decrease as income increases, resulting in a more progressive tax system.[1] Therefore, lower-income households receive greater tax relief than higher-income households. These programs are specifically targeted to low- and moderate-income households.

About 33 states and the District of Columbia offer circuit breaker programs. Most of these provide tax relief to both homeowners and renters. Most of them are targeted to older homeowners and renters or provide more generous benefits to older homeowners and renters. Most circuit breaker programs are state financed.

Property tax deferral programs allow homeowners (mainly older or disabled homeowners) to postpone payment of all or a portion of their property taxes until the sale of their property. The deferred taxes become a lien against the value of the home. The state will charge homeowners an interest/finance charge against the amount of deferred property taxes as well as any accrued interest. This charge will accrue as part of the lien remaining against the property and will not actually be billed to the homeowner. Only about 26 states and the District of Columbia offer deferral programs.

When assessing property tax relief programs, one major consideration is making sure that eligible homeowners and renters are educated and informed about them. Any state law enacting a new program will be useless if eligible homeowners and renters are unaware of it. In addition to promoting awareness, many eligible homeowners and renters may need assistance with filling out forms to qualify for the program.

Another consideration relates to ability to pay. Of all of the property tax relief programs, the circuit breaker program is the most progressive because the benefit amount varies with income. Additional

[1] Some references define circuit breakers as property tax credits that decrease as income increases. However, I choose to also include in the definition programs in which homestead exemptions decrease as income increases.

tax relief can be provided to current circuit breaker programs by expanding income eligibility brackets, by expanding the program to cover all ages, and by increasing benefit amounts. The Lincoln Institute of Land Policy produced a report that describes a model circuit breaker program based on multiple thresholds.

Many older homeowners may fear being forced out of their homes because of high property taxes. Property tax deferral programs have the potential to solve this problem, but many older homeowners may not want to participate because of the tax lien and finance charge. However, deferrals may be the key for both homeowners and local governments; homeowners can continue living in their homes without being concerned about foreclosure due to high property taxes, and the local governments will eventually receive the deferred property taxes and interest payments.

These are just a few methods of addressing property tax that other states have used. While many of these programs could be considered in a larger solution that changes the focus of education funding, AARP Pennsylvania believes that a more balanced approach to education funding is needed. It is important to note that any changes to property tax will create winners and losers. We want to make sure that no one is unfairly targeted or overly burdened by changes, but we do believe that seniors are disproportionately affected by the current property tax system and that balancing is required.