

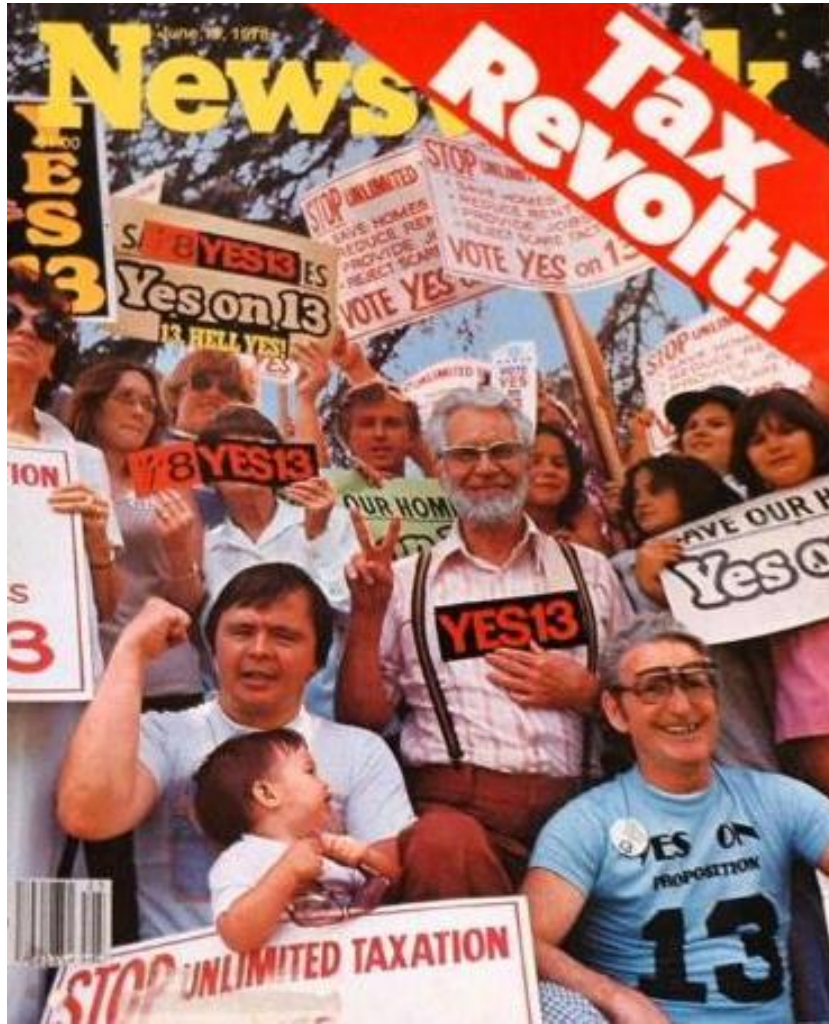
Property Tax Relief Options for State Governments

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Political Pressure for Property Tax Relief

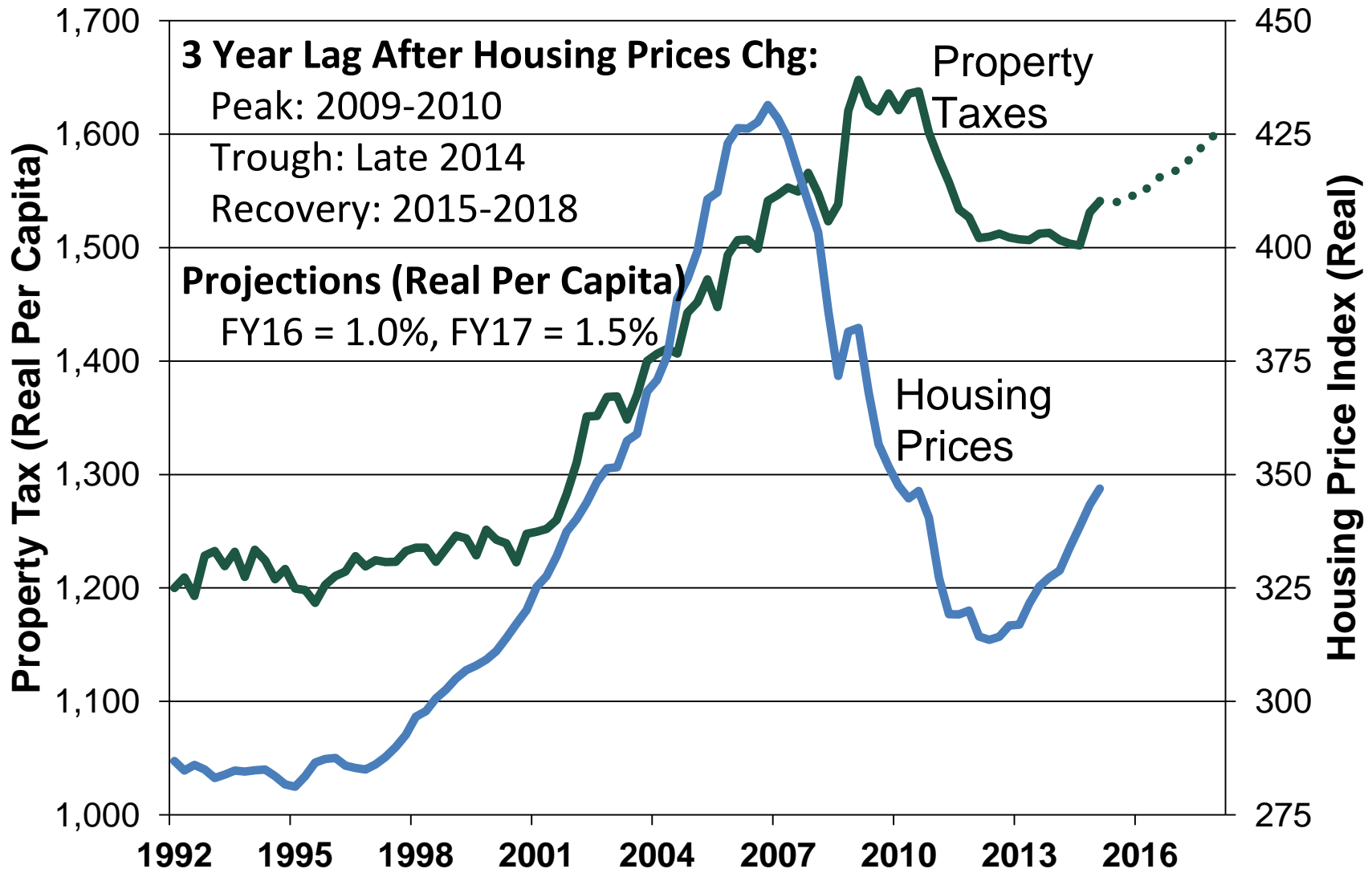


TX: Property tax revolt led to 2015 adoption of \$10k increase in homestead exemption and supermajority to raise property tax rates

ND: Movement led to 2012 referendum to eliminate property tax (Voted down)

IL, PA: Debates about property tax relief holding up passage of FY16 budgets

Property Taxes and Housing Prices



Quarterly Summary of State & Local Taxes; FHFA U.S. All Transactions Index; CPI-U; Total Population of U.S. Projections use three year lag and 0.4 elasticity w.r.t. housing price changes.



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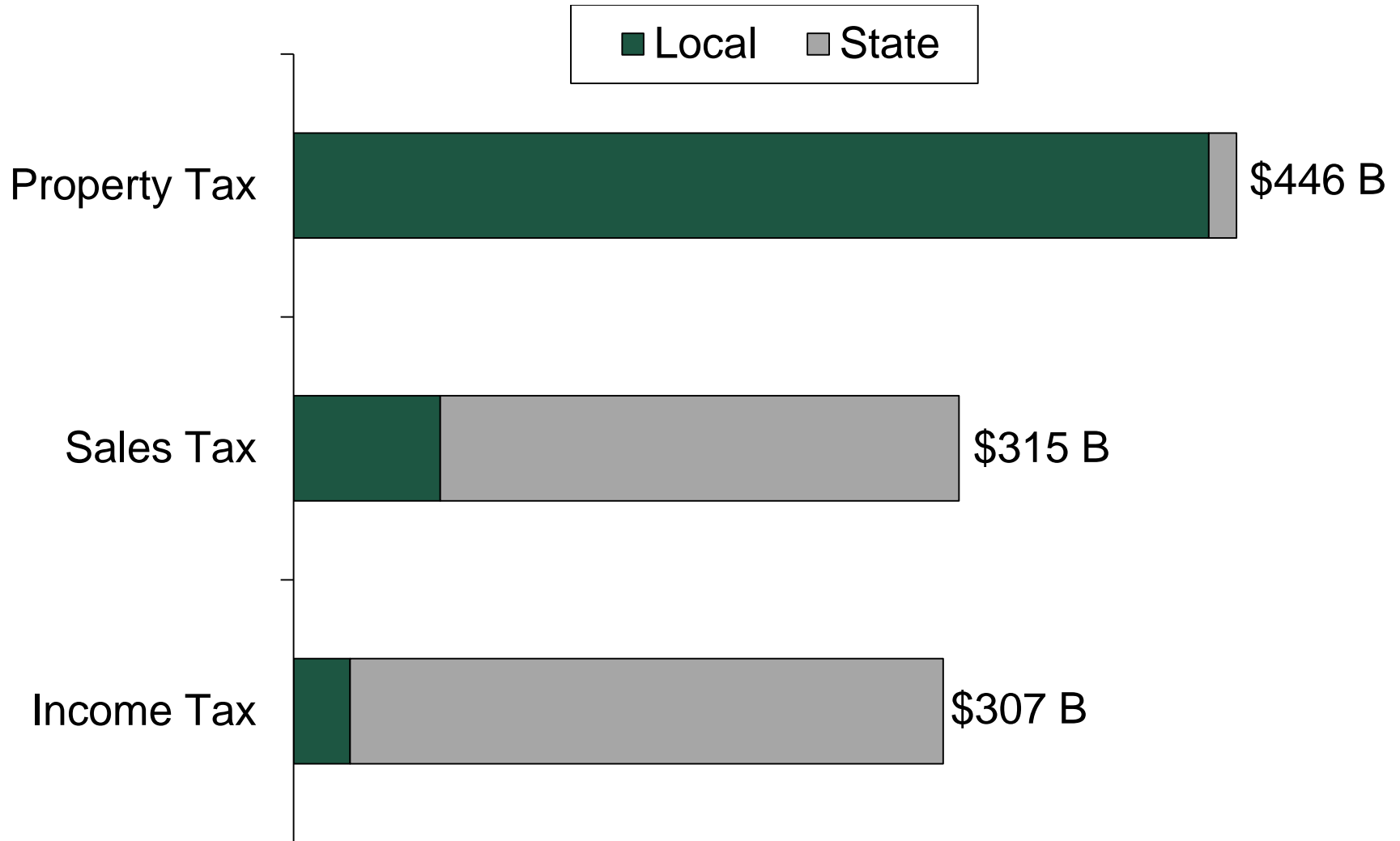


- Think tank focused on use, regulation, and taxation of **land**
- Work on property tax, urban planning, land conservation, municipal fiscal health
- Property tax matters because it's the linchpin for local gov't

Outline

- 1) Strengths and Weaknesses**
- 2) Options for Property Tax Relief
- 3) How Property Tax Relief Programs Affect State Governments

State + Local Gov't Taxes in 2012 (Billions)



Source: U.S. Census Bureau, Census of Government Finances.
Income tax is personal income tax; sales tax is general sales tax.

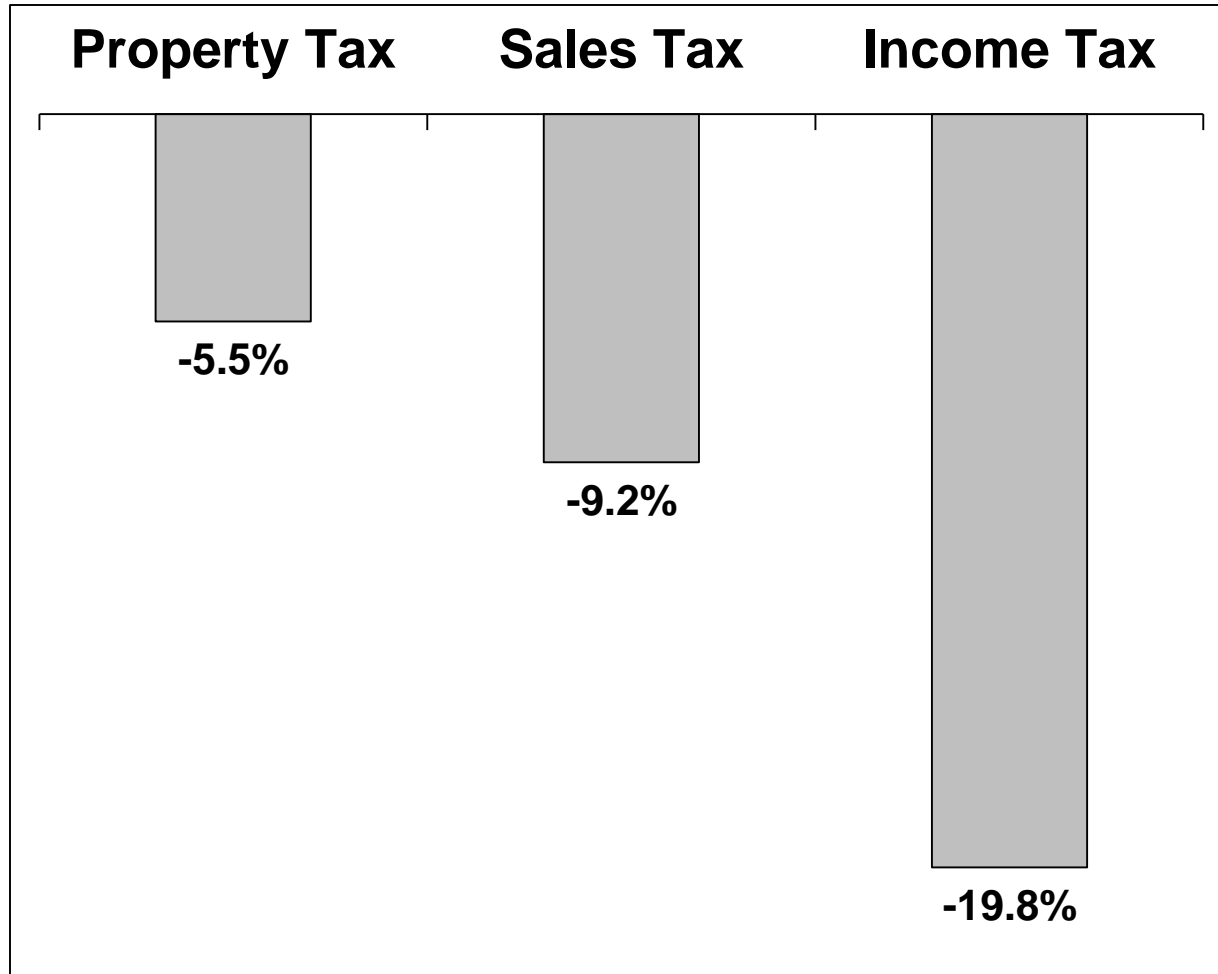
State-Local Taxes as % Family Income



Source: Institute on Taxation & Economic Policy, *Who Pays* (5th Edition).

Revenue Changes During Great Recession

(% Chg. in Real Per Capita State-Local Tax Revenues, Peak to Trough)



Source: U.S. Census Bureau, Annual Surveys of State and Local Government Finances.

- **Criticisms of property tax:**
 - X **Property taxes too high**
 - X **Not directly tied to ability to pay**
 - X **Regressive?**
- **Strengths of property tax:**
 - ✓ **More progressive than alternative revenue sources**
 - ✓ **Stable over the business cycle**
 - ✓ **Accountability on gov't spending and taxes**

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Tax Limits

	CA Prop. 13 (1978)	MA Prop 2 ½ (1980)
Property Tax Cut from 1978-1982 (Real Per Capita Taxes)		
% Chg.	53% ↓	35% ↓
State Rank	3 rd to 23 rd	2 nd to 10 th

Tax Limits

	CA Prop. 13 (1978)	MA Prop 2 ½ (1980)
Limits apply to	Assessed values of individual properties	Property tax levy for entire municipalities
Growth rate limit	Lesser of 2% or inflation	2.5% plus taxes on new properties
Approach	Assessment limit	Levy limit
Absolute limit	Tax on individual property can't exceed 1% of it's value	Tax for entire municipality can't exceed 2.5% of total value in the municipality

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Approach	Assessment limit	Levy limit
Property tax based on market values?	No	Yes

Consequences of severing link between property values and taxes:

- Horizontal inequities
- Lock-in (Mis-sized homes; Don't move for jobs)

Homestead Exemptions

- Exempt certain amount of assessed value from taxation
→ Reduces amount of taxes owed on property

	\$100,000 Home	\$200,000 Home	\$400,000 Home
Tax before exemptions (1% rate)	1,000	2,000	4,000
\$20,000 Homestead Exemption			
Taxable value after \$20,000 exemption	80,000	180,000	380,000
Tax after \$20,000 exemption	800	1,800	3,800
\$ Savings	200	200	200
% Savings	20%	10%	5%

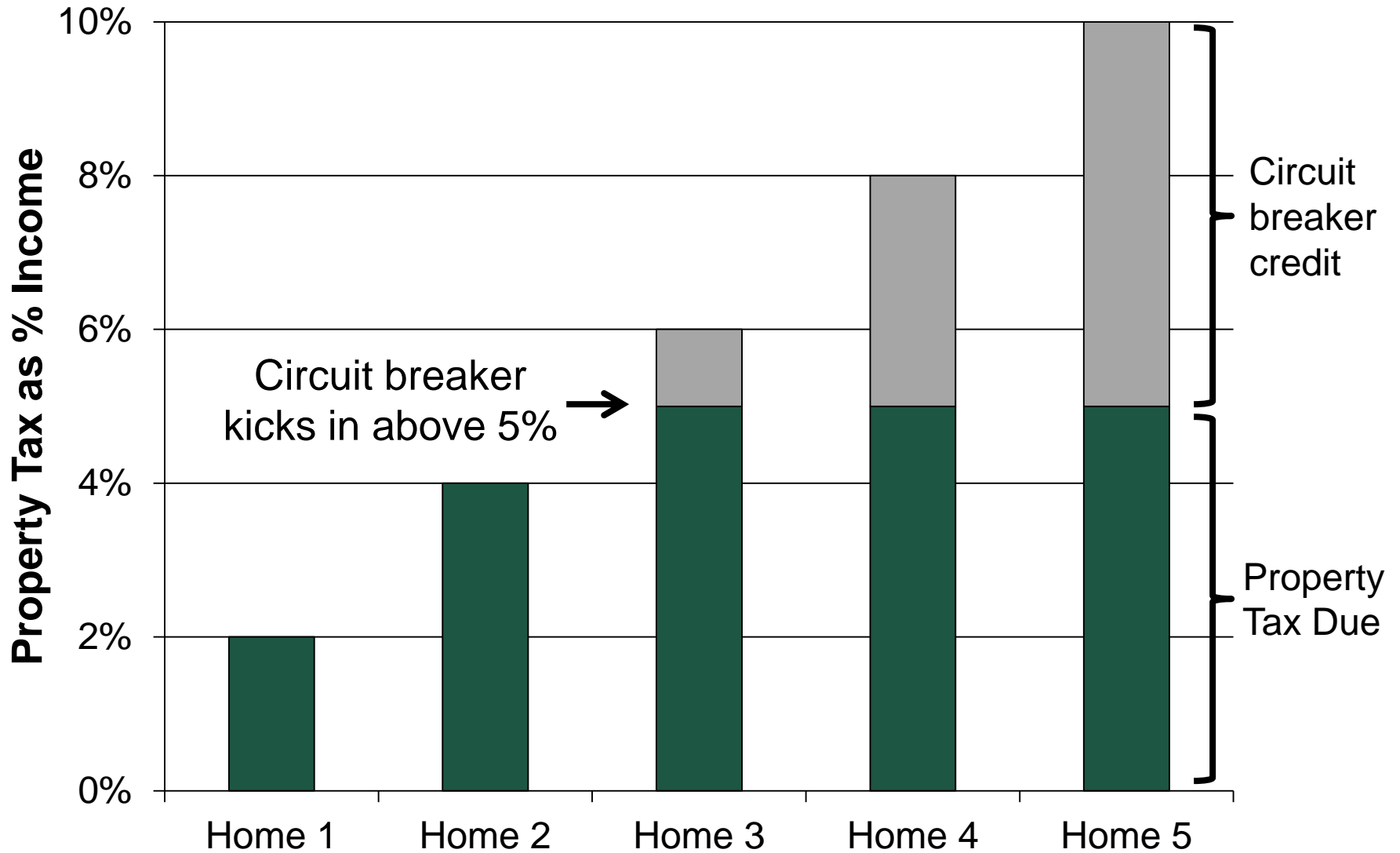
Homestead Exemptions

- Exempt certain amount of assessed value from taxation
→ Reduces amount of taxes owed on property
- **Percentage** exemptions (i.e. 10%) not very progressive compared to **fixed dollar** exemptions (i.e. \$10k)
- **Broad based programs:**
 - All owner-occupied primary residences (25 states)
 - All senior homeowners (7 states)
 - Businesses, renters, second homes not eligible
→ Shift tax burden towards these properties

Circuit Breakers

- Circuit breakers prevent households from being overburdened by property taxes
- **Targeted** rather than broad-based
 - Focuses on households with heaviest tax burdens
 - Seniors on fixed incomes; People who lost their job
 - Cost-effective approach
- “Classic” approach sets a **threshold** percentage of income that property taxes must exceed before any tax relief is available
 - Circuit breaker benefit offsets taxes above this point

5% Threshold Circuit Breaker



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Property Tax Relief Funded by State Gov't

- **Circuit breakers and half of homestead exemption programs are state-funded**
 - Income tax credit, Rebate check
 - Property tax credit with state reimbursement
- **Arguments for state funding**
 - Mitigates disparities in property wealth across communities
 - State funding \approx Property Tax **Cut**; Local Funding \approx Tax **Shift**
 - Locally funded exemptions: Tax **base** \downarrow \rightarrow Tax **rates** \uparrow
 - \rightarrow Businesses and others pay more
 - But: May incentivize higher local spending \rightarrow Property tax cut \downarrow

Property Tax Limits Impact State Budgets

- **Property tax limits don't *reduce* local gov't spending; they *shift* revenue composition**
- **Revenue shift can impact state governments**
 - **State aid:** Largest local revenue source
 - **Local sales/income taxes:** Shared tax base
 - Higher **total** tax rates (State + Local)

Conclusion

- **Strengths and weaknesses**
 - **Strengths:** Stable revenue source, promotes accountability, progressive compared to sales tax and charges/fees
 - **Weaknesses:** Not directly tied to ability to pay, large tax burden
- **Options for reforming property tax**
 - **Assessment limits (CA Prop 13):** Horizontal inequities; lock-in
 - **Levy Limits (MA Prop 2 ½):** Better approach for tax limit
 - **Homestead exemption:** Broad-based; makes tax more progressive
 - **Circuit breakers:** Targeted relief to most burdened households
- **Property tax relief normally affects state government**
 - Property tax relief programs often state-funded
 - Tax limits: State aid ↑, Shared tax base

Additional Information

Lincoln Institute of Land Policy

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