

CHAPTER 11

REAL PROPERTY TAX

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INTRODUCTION

THE tax on real plus personal property serves as the largest source of state or local own-source revenues. In FY 2008, the property tax generated \$409.7 billion for state and local governments—96.9 percent of which was received by local governments.¹ In contrast, general sales taxes generated \$304.4 billion for state and local governments (20.8 percent being received by local governments) and the personal income tax generated \$304.6 billion of which just 8.6 percent was received by local governments.²

Although the relative importance of the property tax has declined over time, it is nevertheless still the local government revenue “mainstay.” Forty years ago, in 1968, the property tax accounted for 42.9 percent of local general revenues, 56.1 percent of local own-source revenues, and 86.1 percent of local taxes. In 2008 the comparable property-tax shares were 28.3 percent, 45.3 percent, and 72.3 percent, respectively.

According to the US Census Bureau, in 1968 the property tax generated \$26.8 billion in local revenues. By 2008 it generated \$397 billion in revenues for local governments—an increase in nominal property-tax collections of 1,381 percent over this forty-year period. Adjusting for inflation, the increase in real property-tax revenues over this period was 101 percent.³

A number of metrics are commonly used to describe the role of total property-tax revenues in local finances. For example, in 1972 total local property taxes per capita were \$198.87, increasing to \$1,305.65 per capita in 2008—an increase of 557 percent. Figure 11.1 presents a number of other common metrics documenting the changing role of property taxes during this period—property tax collects relative to local general revenues, own-source revenues, tax revenues, and personal income.⁴ From 1972 to 1982 local property taxes declined significantly as a share of local general,

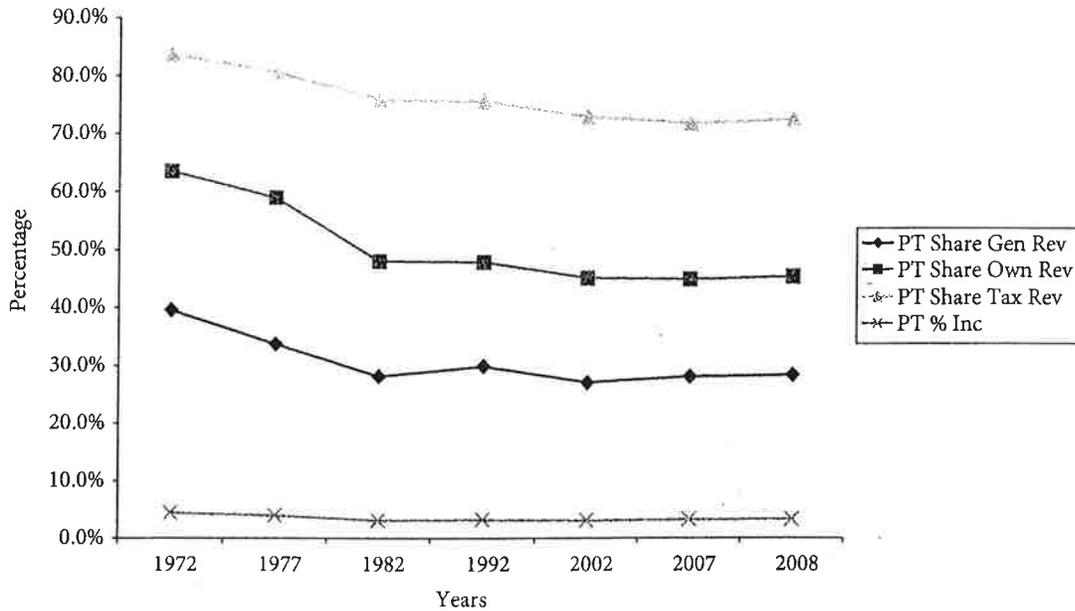


Figure 11.1 Property taxes as share of local revenues

Source: Data for 1972, 1977 and 1982 come from 1982 Census of Governments, Volume 6: Topical Studies, Number 4: Historical Statistics on Government Finances and Employment, selected tables, GC82(6)-4. Government finance data for 1992, 2002 and 2007 come from Census of Governments for each year accessed at <http://www.census.gov/govs/>. Government finance data for 2008 come from the state and local government finance annual series which can be accessed through the same web site. Data for population and personal income come from the 2010 Statistical Abstract of the United States accessed at <http://www.census.gov/compendia/statab/>

own-source, and tax revenues, while its share of own-source and tax revenues continued to decline modestly from 1982 to 2007.⁵ Local property taxes increased as a share of local general, own-source, and tax revenues from 2007 to 2008, in part as a result of the impact of the Great Recession on local income and sales tax revenues.

The relative importance of total property taxes as a source of local revenue varies across states. Such variations reflect differences across states in state income, assessment levels, property-tax rates, and the relative importance of personal property in the property-tax base. Appendix 11.1 reports data on the variation in reliance on total property taxes across the fifty state systems of local government. In 2008, four states have local governments that generate more than three-fourths of their own-source revenues from property taxes—Connecticut (83.4 percent), New Hampshire (80.7 percent), Rhode Island (79.3 percent), and New Jersey (76.6 percent). At the other extreme, seven states had local governments that depended on property taxes for less than one-third of their own-source revenues.⁶ Their variation is not as great when looking at the role of the property tax in local tax revenues. In 2008, thirteen states had local governments that generated more than 90 percent of local tax revenues from the property tax, but only three states with local governments that generated less than 50 percent of tax revenues from the property tax.

In 2008 total property taxes generated an average of \$1,306 per capita. The property tax generated more than \$2,000 per capita in four states—New Jersey (\$2,615),

Connecticut (\$2,378), New Hampshire (\$2,029), and New York (\$2,005). At the other extreme, the property tax generated less than \$600 per capita in six states.⁷

The property tax is a tax on wealth, but the liability must be paid out of annual income. One common measure of the “burden” of the property tax is the share of personal income required to pay annual property-tax liabilities. In terms of the claim on personal income, property taxes declined somewhat between 1972 and 1982, and they have been relatively constant at about 3 percent of personal income since 1982 (see figure 11.1).

The claim of the property tax on state income also varies across states. In 2008, on average the property tax claimed \$32.85 for each \$1,000 of personal income. The local property tax accounted for more than \$45 of personal income in four states—New Jersey (\$51.35), Rhode Island (\$47.87), New Hampshire (\$47.37), and Maine (\$45.51). Alternatively, the local property tax accounted for less than \$20 per \$1,000 personal income in eight states.⁸

Another measure of “burden” that economists typically consider is the tax liability relative to the tax base (market value), or the effective property-tax rate. Bell and Kirschner review a number of alternative measures of effective property-tax rates as described in box 11.1.

They conclude that the most comprehensive measure of effective property-tax rates is the one calculated annually for the largest city in each state by the Minnesota Taxpayers Association (MTA).⁹ Appendix 11.2 presents data from the MTA’s annual survey of effective property-tax rates for the largest cities that have the highest and lowest effective property-tax rates on the median priced urban residential property in 2006 and 2009.¹⁰ Four of the five cities with the highest effective property-tax rates in 2009 were among the five cities with the highest effective tax rates in 2006. The median residential property value fell in three of these four cities (Buffalo, New York, was the exception) during the Great Recession. Of the four with the highest property-tax rates in both years the effective property-tax rate increased in two cases (Aurora and Philadelphia) and declined in two others (Detroit and Buffalo).

Three of the five states with the lowest effective tax rates in 2009 were also among the lowest in 2006—Honolulu, Denver, and Boston. For these three cities, the effective property-tax rate fell in two (Honolulu and Boston) and was unchanged in Denver. In other words, effective property-tax rates vary significantly across the largest cities in the fifty states and there has been no systematic pattern of change in effective tax rates as a consequence of the Great Recession.¹¹

While Census data include revenues from both real and personal property, the focus of the rest of this chapter is on the real property tax. When judged with respect to the conventional standards for what makes a “good” local tax, the real property tax gets high marks: in principle it meets the tests of revenue productivity and stability, and, because it generally satisfies the “matching principle” between the benefits of local services received and the payment for such services, it satisfies the efficiency and equity criteria. In practice, however, the property tax is moving further and further from these ideals because of its increasingly narrow focus, policies that create distortions to private decision making by favoring some land-use types more than others and the administration of the tax is becoming less uniform

Box 11.1 Summary of Characteristics of Various Measures of Effective Property-Tax Rates

	Source of Data		Base of Comparison	Jurisdiction for which Effective Tax Rate is Computed
	Property Taxes	Property Value/Income		
American Association of Retired Persons	American Community Survey	American Community Survey	Income	Average for state*
National Association of Home Builders	American Community Survey	American Community Survey	Property value	Average for state
Minnesota Taxpayers Association	Calculated for each state	Calculated for each state	Property value	Largest city and one rural jurisdiction in each state
District of Columbia Government	Calculated for each state	American Community Survey	Property value	Largest city in each state
Fiscal Policy Institute	Calculated for individual properties	Actual sales data	Property value	Individual jurisdictions in the D.C. metro area

*Property-tax burdens are computed for three groups in each state: all homeowners, homeowners under sixty-five years of age, and homeowners over sixty-five years of age.

and less fair and the tax is becoming less accountable because of “the confusing and opaque jumble of special provisions that accumulate as the broad base of the property tax is destroyed.”¹²

The purpose of this chapter is to discuss the trends considered to be undermining the broad base of the real property tax and the implications these trends have for the credibility and legitimacy of the local real property tax.

THE PROPERTY TAX AS A REVENUE SOURCE

Revenue Stability

As noted above, the property tax is the foundation of local government revenue. Moreover, it tends to be a stable revenue source because it is based on asset value, not on an annual stream of income or sales.

A stable tax generates revenues that change relatively more slowly than income—that is, the tax revenue is income-inelastic. And, because real estate markets reflect

long-term asset values, which tend to respond more slowly to annual changes in the level of economic activity than economic flows like sales, personal income, and profits, the property tax tends to be more stable than the general sales tax or the personal income tax. Also, fluctuations in the property-tax base are moderated because few jurisdictions have annual assessment practices that completely capture changes in real estate values. Therefore, the property tax is regarded as a relatively stable revenue source—especially compared with other potential local tax sources (local personal income and local general sales taxes).

The relative stability of the property tax protects local budgets in periods of economic downturns. For example, figure 11.2 documents the continued growth of property-tax revenues from the first quarter of 2008 through the second quarter of 2009 while income and sales tax revenues declined significantly during the Great Recession.

The property tax represents a critical anchor for funding local governments. In a recent study of the impact of the Great Recession on local revenues generally, and property taxes specifically, Alm, Buschman, and Sjoquist concluded that

local government reliance on the property tax rather than more elastic revenues sources like income, sales, and excise taxes has—so far, in any event—helped local governments avoid some of the more severe difficulties experienced by many other governments in the current economic situation.¹³

Giertz documented a similar stabilizing impact of the growth in property-tax revenues as income and sales tax revenues declined, albeit more modestly, as a result of the stock market decline in 2000 and the recession of 2001.¹⁴

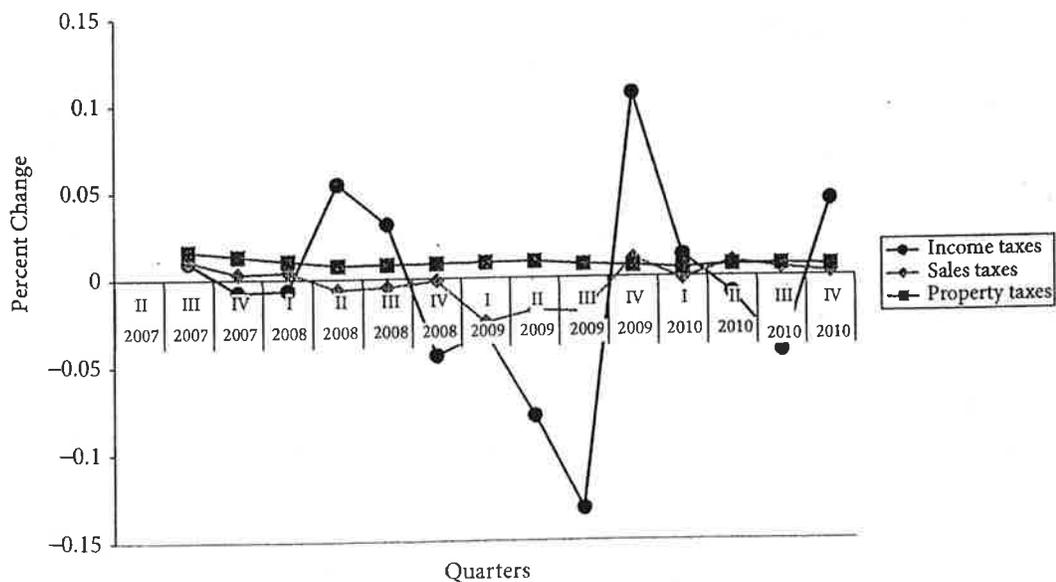


Figure 11.2 Quarterly percentage change in tax collections by type of tax

Source: Author's calculations based on Bureau of Economic Analysis, National Income and Product Account Tables, Table 3.3 State and Local Current Government Receipts and Expenditures, found at <http://www.bea.gov/national/nipaweb/TableView.asp?SelectedTable=88&ViewSeries=NO&Java=no&Request3Place=N&3Place=N&FromView=YES&Freq=Qtr&FirstYear=2007&LastYear=2010&3Place=N&Update=Update&JavaBox=no>

Neutrality/Efficiency

Neutrality, or efficiency, in taxation requires that taxes minimize unintended influence on private economic decisions. What is to be avoided, or minimized, to the extent possible, is a tax that causes taxpayers to adjust their behaviors in ways that shift the ultimate burden of the tax to others or avoid the tax entirely. To the extent that economic actors adjust their behaviors to shift or avoid the tax, the tax has distorted private economic decisions and the economy is moved to a less efficient, or lower, welfare position because of the tax.¹⁵ As a general rule, such inefficiencies are best avoided by a system with a broad tax base (e.g., allow few, if any, tax exemptions, deductions, and credits) combined with low rates.¹⁶

In this context, an ideal real property tax would be broad based and include all forms of real property (i.e., land and structures for both residential and commercial properties, as well as agricultural land and property owned by governments and non-profit organizations alike). In addition, because the property tax is assessed against real property, which, in the short run, is immobile, there is little that owners can do to avoid the tax. Thus, the tax has little impact on their economic decisions in the short run. In this respect, the property tax tends to distort private economic decisions less than other local taxes—especially when the base of the tax is defined as broadly as possible.

Simplicity

Taxes may cause distortions in the allocation of economic resources if they are complex and difficult to administer. In such a situation, the taxpayer may have to spend substantial resources to comply with the tax law, and the local jurisdiction may expend substantial resources administering it.

The property tax is generally considered to be taxpayer-passive because taxpayers face minimal compliance costs. Alternatively, the property tax is considered to have higher administrative costs for the local government associated with preparing and maintaining the tax roll, annually estimating the property-tax base,¹⁷ generating and delivering tax bills, collecting tax revenues, and enforcing the payment of the property tax when it is not paid in a timely fashion. Relative to other potential local tax sources with tax bases that are annual flows that must be monitored and verified (high compliance costs for both taxpayers and the government), the property tax is relatively easy to administer and involves low taxpayer compliance costs, except in the case of commercial and industrial property that may have higher compliance costs for both the taxpayers and the government.¹⁸

Another virtue of the property tax, from the government's perspective, is that taxpayers cannot easily hide or move real property. Thus, unlike income and sales taxes, the real property tax is difficult to evade. Moreover, the property provides collateral for the tax liability. If the property owner fails to pay the taxes, a lien is placed on the property. That lien prevents the property from being sold or mortgaged until the tax liability is satisfied. If collection efforts are unsuccessful, the

local government can seize and sell the property. The local government retains the taxes owed, penalties, interests, and administrative costs, and it then remits the remainder to the owner. While property-tax sales are often the last resort for local governments, such sales provide powerful incentives to comply with the law.

Finally, the property tax presents equally attractive compliance benefits for the taxpayer. Most residential property owners face minimal compliance costs. Unlike the much more onerous (from a compliance standpoint) federal and state income taxes, there are no forms to file when complying with property taxes. There are generally no calculations to be made. Indeed, the government calculates the property tax and the taxpayer's role begins and ends when the tax is paid. And it is rare for an individual property owner to incur fees for professional tax assistance (i.e., accountants, attorneys) when complying with the property tax, even if the assessed value is appealed (unless it ends up in court, which is generally rare).

Equity

The property tax funds the delivery of community services. How the cost of these services is distributed across properties determines the fairness of the property tax. In this context, the property tax is consistent with both the ability-to-pay and the benefits-received principles of taxation.

The case for ability-to-pay principle of taxation of real property is based on two arguments. First, there is general agreement that the annual stream of housing benefits (or the annual stream of similar benefits accruing to commercial and industrial properties) escape taxation under the current income tax.¹⁹ In other words, there is agreement that the taxation of income is generally imperfect because it does not capture all consumption (or unrealized capital gains to stocks, bonds, and other intangible property). As discussed above, in order to minimize the distortions of individual decision making as a result of a tax, the income tax should be comprehensive. This requires that all additions to income—whether in the form of money income, imputed income, changes in net wealth, or, as in the case of real property like housing, the annual flow of housing services—should be included in the taxable base.

To the extent that the annual flow of benefits escapes taxation, equity and efficiency concerns mandate that the asset be taxed. For example, in the case of housing, the value of the asset is the capitalized value of the annual stream of housing benefits received. Thus, a property tax, especially on residential and agricultural property, is a necessary complement to an imperfect tax on income.

The second argument that the property tax is consistent with the ability to pay rests on how the ultimate economic impact, or incidence, of the property tax is shifted from the taxpayer to others. It is generally agreed by most economists that the ultimate incidence of the property tax rests on all capital. According to Aaron, the “new” view of the incidence of the property tax holds “that *all* owners of capital bear the property tax” in large part because a uniform tax on the value of all land

and capital goods would reduce the rate of return to owners of capital.²⁰ Because property, and most other forms of capital, is concentrated in the top income groups, it is generally argued that the property tax is a progressive tax.

In addition, the property tax is generally considered to be consistent with the benefits-received principle of taxation. Because the property tax funds community services—e.g., police officers, fire stations, street maintenance—the level and quality of these site-oriented services benefit property owners and increase the values of their properties. This argument assumes implicitly that the benefits of public services are distributed across properties in proportion to market value. In turn, this implies that expenditure benefits are capitalized in the values of the properties.

The property tax, then, is consistent, to some extent, with both the benefits-received and ability-to-pay rationale. As implemented, however, it is fundamentally a tax on wealth with property-tax liabilities defined in terms of the value of real estate. Therefore, to promote fairness, property values must be estimated uniformly across all properties within a property-use class and across property-use classes.

Again, the base of the property tax is not observed annually, it is estimated. To achieve a fair allocation of the responsibility for financing local public services, properties need to be assessed for tax purposes uniformly. Eckert argues that uniformity, both within and across different classes of property, relates to the fair and equitable treatment of individual properties. Appraisal uniformity requires the equitable treatment of individual properties within groups (use classes, neighborhoods, etc.) and between groups. When individual property valuations are at the same percentage of market value, they are most likely to be accepted as fair. The ultimate policy objective, therefore, should be to implement the property tax uniformly across all property-use classes at 100 percent of market value, which promotes transparency.²¹

This notion of uniformity means that the property tax treats similarly situated taxpayers the same, that similar real property values should be taxed alike. Dissimilar treatment—real differences in the taxation of equals—undermines confidence in the property-tax system. Consider the homeowner who discovers that because of assessment limits, and valuation for tax purposes based on acquisition value, his neighbor, with essentially the same house, pays substantially less in property taxes simply because he has lived in the house longer. Such situations can only breed cynicism and distrust not only of the tax system, but also of government in general.

Because the property tax is, to some extent at least, an imperfect proxy for ability to pay, uniformity requires that higher valued properties pay more property taxes than lower valued properties. In other words, taxpayers with properties of different value have tax differences proportionate to their underlying market-value differences.

In conclusion, based on traditional criteria for evaluating a revenue system, the local property tax emerges as a very defensible source of local revenues. The property tax is especially attractive when compared with other potential sources of local tax revenues.

While most economists would embrace this conventional wisdom, this conventional wisdom is being re-evaluated in light of the consequences of legislative efforts to limit the ability of local governments to raise revenues from the property

tax. The manner in which the property tax is administered greatly influences its productivity, neutrality, simplicity, and equity. Bahl et al. conclude that “bad practice has overtaken many of the potential advantages of taxing property. . . . In the United States, voter preferences in recent years appear to be to trade an equitable property tax for one whose revenue growth is restrained.”²²

Giertz is more direct:

Rather than a broad-based, low-rate tax that treats all types of real property uniformly, the tax in most states is characterized by a bewildering array of constraints and preferences including classified bases, rate limits, revenue limits and caps, assessment exemptions, freezes and caps, circuit breakers, and special incentives for business.²³

Anderson concludes that such efforts by state legislatures to limit the volatility of individual property-tax liabilities through assessment limits, nonannual assessment, revenue limits, or tax rate limits undermine the horizontal and vertical equity of the property tax.²⁴

These issues, as they relate to the erosion of the real property-tax base over time, are explored in more detail in the next section.

TRENDS IN THE REAL PROPERTY-TAX BASE

The real property tax is a mechanism for sharing the cost of providing general local goods and services to the community. It shares those costs across the community in relationship to the composition of the property-tax base. Therefore, trends impacting the composition of the property-tax base are critical in obtaining a fair distribution of the responsibility of funding locally provided goods and services across members of the community.

The property tax can be either general or selective in nature. A general property tax applies broadly to all types of property and treats individual types of property uniformly. Alternatively, a selective property tax is characterized by nonuniformity of tax treatment across property types. Nonuniformity can be introduced in a number of ways, including total exclusion of some property types from the base, by differential tax treatment of various property types, or by a combination of these two.

A general property tax, therefore, would be imposed on all classes of property—e.g., land, improvements, machinery, household goods, automobiles, and business inventories—in a uniform manner regardless of the nature of the property, its use, or ownership. Typically, the base of a general ad valorem property tax is the estimated market value of each property type. The property-tax liability is then determined by applying a single statutory rate uniformly to the estimated market value of the base.

In contrast, a selective property tax is imposed on a well-defined subset of all classes of property, usually based on the type of asset, its use, or its ownership. Given these characteristics, some property may be totally or partially excluded from the property-tax base (e.g., business machinery, inventories, and homestead properties).

The property tax in the United States was initially a selective property tax imposed on certain classes of wealth easily identifiable in an agrarian economy (e.g., land, improvements, and cattle).²⁵ Tax rates were generally *in rem* (i.e., levied at so many cents per unit rather than as a percentage of value like the current ad valorem property tax). Starting in the early nineteenth century, the various forms of tangible wealth increased and intangible property became more prominent. As a result, the nature of the property tax evolved through the mid-nineteenth century to a more general ad valorem property tax that was uniformly applied to the value of this broader set of assets regardless of their form.²⁶

There are two main categories of property—*real property* and *personal property*. Real property consists of two component parts—land plus any improvements permanently attached to the land. Personal property is every kind of property other than real property and consists of two component parts: tangible and intangible personal property. Tangible personal property includes things such as inventories that can be seen, touched, or moved about. It also includes things like cars, boats, office equipment, and machinery. Alternatively, intangible personal property has no physical existence other than certificates or accounts that represent the property value. Fixtures may be either tangible personal or real property, depending on whether or not they can be removed without damaging the real property to which they are attached.

For the last several decades, however, the property tax in the United States has reverted back into a selective property tax focused on real property generally, and residential property more specifically. The personal property tax has been, and is continuing, to decline in relative importance. In terms of locally assessed property values, the personal property tax declined from 17.2 percent of local gross assessed value in 1956 to just 9.8 percent in 1986.²⁷ According to a recent study by the International Association of Assessing Officers, the importance of personal property has continued to decline with twelve states taxing inventories in 2009 (compared with fifteen in 1999), thirty-eight states taxing machinery and equipment (down from forty-three in 1999), thirty-eight taxing tangible business personal property (up slightly from thirty-five in 1999), and seven states taxing intangible personal property (down from ten in 1999).²⁸

Increasing Importance of Residential Property

One of the most important trends in the composition of the property-tax base is the increasing importance of residential property and the declining relative importance of commercial and industrial property. According to Census data, in 1956 residential properties accounted for 54.1 percent of gross assessed values and increased to 61.2 percent in 1986. Over the same period, the commercial share of

gross assessed values increased modestly, from 16.6 percent in 1956 to 17.3 percent in 1986, while the industrial share fell from 10.8 percent in 1956 to 7.0 percent in 1986. Over this same period, the relative importance of personal property fell from 17.2 percent of gross assessed values in 1956 to 9.8 percent in 1986.²⁹ These Census data, however, must be viewed with some caution. For example, the data presented are gross assessed values and do not reflect partial exemptions. As a result, these figures may overstate the relative importance of residential property.³⁰

The Census Bureau stopped collecting such data in 1987, but anecdotal evidence from individual states suggests that the trend has continued unabated. For example, Giertz documents the increasing importance of residential property to the property-tax base in Illinois from 1982 (less than 50 percent of the base) to 2002 (more than 60 percent of the base). This trend is a result of a steady increase in residential property values and a reduction in the importance of real-property-intensive manufacturing in the state.³¹

Bowman provides other anecdotal evidence of the increasing importance of residential property in the property-tax base for selected states:

- in 1987 the Census of Governments estimated that single-family nonfarm residential property in Virginia accounted for 60.6 percent of the real property-tax base, while an estimate from the University of Virginia estimated this share was 71 percent in 2005; and³²
- in 1987 the Census of Governments estimated that all residential property in Ohio accounted for 67.7 percent of the real property-tax base, while state data estimated this share at 72.9 percent in 2004.³³

Gravelle and Wallace reached a similar conclusion about the increasing importance of residential property values as a share of the local property-tax base. Using estimates of the shares of assessed value attributable to residential and commercial/industrial properties between 1981 and 2004 for states that provide data broken down in these categories, they conclude that the share of assessed value in the sample states attributable to residential property increased over the period from about 52 percent to about 64 percent for the sample as a whole.³⁴

Factors Contributing to the Increasing Residential Share of Real Property-Tax Base

The Knowledge-Based Economy

The high-technology, service, and knowledge-based economy adversely affects the local property-tax base. When heavy manufacturing dominated the American economy, a large portion of the property-tax base consisted of business land, plants, and equipment. Factories and heavy equipment, as well as extensive business ownership of land, filled the coffers of local governments with property-tax revenues for much of the twentieth century.

Modern businesses, which tend to rely more on computers and technology, however, have fewer plants and less equipment relative to large manufacturing firms.³⁵ These businesses do not own significant amounts of real property; this lack of ownership leads to a decrease in business property-tax revenue.³⁶ In fact, there has been a significant drop in the capital-to-labor ratio economywide, which may have reduced the growth in some types of taxable property.³⁷ This results in a shift in property-tax burdens from businesses to residential properties.³⁸

In addition, the new economy has created another problem for the property tax. Capital-intensive firms (that is, those with relatively large amounts of plants and equipment) now incur a larger share of commercial and industrial property tax liabilities than high technology or service-centered businesses.³⁹ That inequity undermines support for the tax, particularly within the business community. Such inequities may lead to calls for lower tax burdens on capital-intensive firms in an effort for the local government to compete for jobs.

Competition for Jobs

The decade between 2000 and 2009 saw no net new job growth in the United States. As a result, some state and local governments reacted by adding to a plethora of property-tax incentives ostensibly intended to stimulate economic growth and job development.

Wassmer catalogued the growth in property-tax incentives for businesses across states.⁴⁰ Wassmer adopted the classification of such programs as “stand-alone property tax abatement programs” (or SAPTAPs), which (1) allow for a full or partial reduction in property-tax liability for selected manufacturing, commercial, or retail parcels; (2) impose a time limit on the reductions; (3) have a stated purpose beyond relief from high property taxes; and (4) need not be used with other state or local economic development programs. Wassmer identified fourteen states with such programs in 1963⁴¹ and thirty-five states in 2007 with such programs. In 2007, six other states had property-tax abatement programs that did not fit the definition of SAPTAP. He concluded that for a state or region that theory and empirical evidence show that abatement does little but deplete the entire base of property taxation.⁴²

Preferential Treatment

Most states provide multiple programs that extend preferential treatment to a variety of properties based on land-use type. Appendix 11.3 indicates that all fifty states provide preferential treatment for farmland, thirty provide preferential treatment for timber land, twenty-three have programs providing preferential treatment to open spaces, and eleven have programs providing preferential treatment for historic preservation. Such preferential treatment might include the total exemption of the taxable value of certain property based on ownership or use. Alternatively, the taxable values of such properties might be reduced through preferential assessment practices. In addition, most states provide property-tax relief to non-profit organizations by exempting their real property from property taxes.

Property owned by nonprofit organizations is generally, although not always, exempt from the property tax. Utilizing the flow of funds accounts of the Federal Reserve Board, Bowman and others estimated that the value of real estate owned by nonprofit organizations increased from \$1,233.5 billion in 2000 to \$1,792.8 billion in 2005—a 45 percent increase in just five years.⁴³

In addition, all fifty states have programs that provide preferential assessments for farmlands. Typically, farmland, and in many states forest land and open space land, are valued at use value, not market value. Most states do not estimate the impact these programs have on the property-tax base, but some that produce tax expenditure budgets that include property taxes estimate the revenues lost because of such preferential treatment. For example, Minnesota estimated that in 2006 their Green Acres program reduced property taxes by \$42.8 million and their open space program reduced property taxes by \$5.1 million; in 2006 preferential treatment of farmland cost Nebraska \$145.9 million in foregone property-tax revenues; in 2005 to 2007 local governments in Oregon lost \$181 million in property-tax revenues; and local governments in Texas experienced foregone property-tax revenues of \$1.6 billion.⁴⁴

Green and Weiss estimated that the preferential treatment of farmland in Wisconsin reduced the taxable value of agricultural land by 44 percent. The impact of preferential treatment of farmland in Kansas is even more significant as it is estimated that the market value of agricultural land is nearly five times its taxable value.⁴⁵

RESPONSES TO THE INCREASING IMPORTANCE OF RESIDENTIAL PROPERTY

Given the increasing share of property-tax liabilities falling on residential property owners, it is no surprise that legislators and local elected officials pursue policies to ameliorate those pressures. This trend toward limiting the property tax on residential property is exacerbated by the fact that the property tax tends to be consistently unpopular.

For two decades the Advisory Commission on Intergovernmental Relations conducted a survey of public attitudes toward taxes and government. From 1972, the first year of the survey, until 1979, the property tax was considered the worst, or least-fair, tax, followed by the federal income tax. From 1979 to 1993, the last year of the survey, the property tax was considered the second worst, or least-fair, tax after the federal income tax.

Nearly a decade later the property tax was still considered the worst tax by 22 percent of survey respondents compared with 30 percent who thought the federal income tax was least fair.⁴⁶ Most recently, a Gallup/CNN/USA Today poll in April

2003 found that 38 percent of Americans thought the local property tax was the worst tax compared to 21 percent who chose the federal income tax. This environment makes it easier for some to argue for the complete elimination of the property tax.⁴⁷

In part, the property tax is unpopular with taxpayers because it is a tax on wealth that must be paid out of current income. When the market value of residential property is increasing more rapidly than income, people feel the pressure from increasing property-tax liabilities. In fact, a common theme that emerges in states considering eliminating the property tax is the growth rate of tax liabilities, especially for homeowners (i.e., voters), which creates what has been called the “monthly payment problem.”⁴⁸

Over the last several decades there have been a number of efforts to provide both *direct* and *indirect* property-tax relief to residential property owners. Direct property-tax relief reduces the tax liabilities for individual property owners. Indirect property-tax relief reduces reliance on property taxes by providing local governments access to alternative own-source revenues, or greater reliance on state grants. Sjoquist, Sweat, and Stoycheva explore in their chapter for this volume the issue of revenue diversification through increased reliance on user fees and local sales and income taxes. The focus here is on tools used to provide direct property-tax relief.

Property-Tax Rates and Levy Limits

According to data in Appendix 11.4, thirty-six states impose limits on the property-tax rate that can be levied by local governments. Most rate limits are set by legislation, but some are included in the state’s constitution. Some rate limits do not allow for any increases, while some can be overridden in particular circumstances. Alabama, Ohio, and Michigan, for example, allow their rate limits to be increased by a simple majority of the electorate, while Oregon and Nebraska require a supermajority vote of the electorate.⁴⁹

Data in Appendix 11.4 indicate that thirty-four states impose a limit on the total property-tax levy that can be raised by a local government. In some states the growth in property-tax revenues is limited to a flat percentage increase from year to year. In other cases, the limit allows for growth to reflect a combination of population growth and inflation. In most states, the levy limit can be overridden by the electorate or the legislative body in the taxing jurisdiction.⁵⁰

According to data in Appendix 11.4, twenty-five states have both a property-tax rate and levy limit, while seven states have neither.

Such property-tax rate and levy limits constrain the ability of local governments to raise revenues from the property tax. Such relief, however, benefits all property owners equally. Thus, the property-tax rate and levy limits are intended to hold the line on the growth in property-tax liabilities in a manner that maintains the uniformity of the administration of the property tax and does not impose distortions on the system.

Classification

Other initiatives by state legislators and local decision makers are intended to impact different land-use classes differently. For example, the explicit policy objective of classification is to introduce different effective property-tax rates—taxes that are different percentages of market value—for different land uses.⁵¹ A general classified property tax can be accomplished in two ways. Most states imposing a classified property-tax system achieve the desired goal by having different assessed values for different land-use classes. Alternatively, many states achieve the goal of differential effective tax rates by applying differential rates to uniform valuations of all classes of property.

Sexton identified twenty-five states that have some form of classified property-tax system. The list identified nineteen states that vary the effective tax rate across land-use types by varying assessment ratios, while six states provide differential effective tax rates across land-use types by varying the tax rate.⁵² Bowman argued that the number is closer to thirty if you include states with local options for classification and states that hold constant some historic relationship between the tax shares of residential property and other property—what Gold called dynamic classification.⁵³

Assessment Limits

While classified property-tax systems have the objective of shifting tax liabilities from residential to commercial and industrial properties by creating different effective tax rates for each land-use class, assessment limits go an extra step by creating different effective tax rates across properties within the same land-use class, as well as across land-use classes. Such limits destroy the notion of uniformity in property-tax administration, thereby undermining the efficiency and equity of the property tax.

Terri A. Sexton identified nineteen states and the District of Columbia as having some form of limitation on the growth in assessed values.⁵⁴ According to Sexton, fifteen of the nineteen states have statewide, uniform assessment limits, three states (Connecticut, Georgia, and Illinois) offer assessment limits as a local option, and New York mandates assessment limits in New York City and Nassau County. Ten states—Arkansas, California, Colorado, Florida, Georgia, Michigan, Oklahoma, Oregon, South Carolina, and Texas—enacted assessment limits as constitutional amendments.

Assessment limits vary by state ranging from 2 percent in California to 15 percent in Minnesota. The assessment limits in other states include 3 percent in Florida, Oregon, and New Mexico; 15 percent over five years in South Carolina; 5 percent in Arkansas, Michigan, and Oklahoma; a range of 6 to 8 percent in New York City; 7 percent in Cook County, Illinois; and 10 percent in Arizona, District of Columbia, Maryland, and Texas. Georgia provides a local option of an

assessment freeze, and 19 of 159 counties have frozen residential values. Unlike the other states, Iowa applies its 4 percent assessment limit to classes of properties (residential, agricultural, and commercial) rather than to individual parcels. Colorado also applies an aggregate cap by limiting the residential part of the tax base to 45 percent of the total.⁵⁵

Most limits on assessed values include a provision called the acquisition value feature, which recalibrates the assessed value to reflect market value when the property changes ownership. Only three states—Arizona, Minnesota, and Oregon—do not have the acquisition value feature of the eighteen states that limit assessment value increases of individual parcels.⁵⁶

Resetting values to reflect market values when a property is sold undermines horizontal equity. Property-tax systems with horizontal equity apply similar tax burdens to similar properties. Under a system with the acquisition value feature, long-time owners are taxed less than new owners of properties similarly valued.⁵⁷ O'Sullivan, Sexton, and Sheffrin calculated that a new owner of a Los Angeles property sold in 1991 would pay five times more in property taxes than an owner of an identical property who has lived there since 1975, the base assessment value that increases 2 percent each year.⁵⁸ In a study of four counties (Alameda, Los Angeles, San Bernardino, and San Mateo) O'Sullivan, Sexton, and Sheffrin found that California's acquisition value system benefited lower-income homeowners and the elderly on average relative to other homeowners because they tended to move less often.⁵⁹

The acquisition value feature creates a disincentive for people to move because property owners lose their tax break when they sell and buy a new place. The longer an owner stays, the larger his or her tax benefits are. Property-tax liability can increase drastically even if the resident moves to a home of equal or lesser value. Faced with a large increase in property taxes, growing families may not move to a larger house, putting pressure on the entry-level housing market. Seniors may not downsize to a smaller house. Homeowners may not relocate with a job and deal with a longer commute. The disincentive to move is called the lock-in effect.⁶⁰

California passed Proposition 60 in 1986 and this allowed homeowners fifty-five years and older to transfer the assessed values of their former homes to new homes of equal or lesser value within the same county. This portability feature is allowed only once in a lifetime. Proposition 90 in 1988 allowed senior homeowners to transfer the assessed value to a new home in a different county if the receiving county agrees.⁶¹

Sexton argued that the acquisition value property taxes add another transaction cost to moving.⁶² It creates a loss in economic well-being from "suboptimal housing consumption, inefficient labor market outcomes, longer commutes with associated environmental and congestion costs, a reduction in the supply of smaller homes for young and old home buyers, and reduced incentives for households to vote with their feet, thereby impeding the efficient provision of local public goods."⁶³

Assessment limits are generally considered to be the least effective, least equitable, and least efficient approaches for providing property-tax relief. Assessment limits give the greatest property-tax relief to those properties growing most rapidly. Such limits result in substantial shifts in property-tax burdens and differences in effective property-tax rates within and across property classes. In short, they are the most destructive property-tax relief tool because they undermine the adequacy, efficiency, and equity of the local property tax.

THE FUTURE OF THE PROPERTY

The property tax is the mainstay of local finances. As such, it provided relative stability for local governments, especially those most reliant on property taxes, during the Great Recession of 2007 to 2009. The real property tax, however, is performing less well against generally accepted criteria for evaluating local revenues because of what Witte has called “the confusing and opaque jumble of special provisions that accumulate as the broad base of the property tax is destroyed.”⁶⁴

The challenge then becomes how to preserve and strengthen the role of the property tax in funding the delivery of critical local government services by moving it back toward a broad-based tax with low rates.

Dye considered the issues of what the future property tax will look like and what might replace the property tax as a source of local revenues. He concluded that given the current budget pressures on state and local governments and the important role of the property tax in local finance that it is hard to imagine drastic reductions in property-tax revenues going forward.⁶⁵

Dye proposed four recommendations for improving the property tax in the future:

- pay attention to the features of property-tax limitations and make sure there is a reasonable provision for override by local voters to maintain local control;
- consider alternatives to broad limitations on the property tax;
- provide better education on the vertical distribution of the burden of the property tax to refine the message and figure out how to get it to a broader audience; and
- provide better information on the fiscal challenges faced by state and local governments as a result of an aging population so there is greater appreciation for the important role of the property tax in state and local finance.⁶⁶

These concerns are echoed by Brunori who argued that the most important first step in restoring the property tax is educating the public about the many virtues

of this specific revenue source vis-à-vis other potential local revenue sources. This should include making the public aware that government reforms, many instituted in response to popular discontent with the tax, have largely addressed the causes of public concern.⁶⁷

Part of the issue may be the terminology used to describe the frustration of taxpayers with tax bills that increase faster than income does. Youngman made the point "that in many cases 'regressive' is simply a dramatic way of calling the tax unfair." Thus, a set of initiatives is necessary to strengthen the role of the property tax by educating the taxpayer and policymakers. Policymakers and analysts need to do more in addressing the myth of regressivity. In popular discussion the property tax is generally thought to be regressive, with a disproportionate burden falling on those who earn low incomes. In theory, and practice, however, the tax is not regressive.

What can be done to promote the argument that the property tax is fair? A number of things seem in order. First, policymakers should move back toward the goal of uniformity of assessment, which has been abandoned over the years, resulting in significant and visible inequities in the tax. Second, once uniformity is restored, there needs to be a serious review of various types of exemptions, as well as what they cost and who they benefit. This should be part of a tax expenditure budget for the property tax.

Fisher expressed the view that the main concern with the property tax is what he termed the "monthly payment problem."⁶⁸ In this context, policymakers should avoid providing property-tax relief to all taxpayers and concentrate such tax relief on those with high property-tax burdens relative to current income. The appropriate policy tool for addressing such a need is the circuit breaker.⁶⁹

Pomp provided an array of recommendations, which might be reasonable but will be difficult to implement. Specifically, he suggested that property can only be purchased by tax-exempt organizations with the approval of the local government, limiting the number of acres qualifying for exemption, setting dollar limits on the amount of property that can be exempt, imposing user charges (or payments in lieu of taxes) on tax-exempt organizations, and requiring that the state reimburse local governments for revenues foregone because of state action.⁷⁰

In search of a solution for reducing the gap between ideal and actual property-tax systems, Witte suggested that strengthening transparency of the property-tax system may help by informing citizens of the costs and benefits of various property-tax relief programs. He mentioned two tools that improve overall transparency: first, there are truth-in-taxation laws that give voters more information about property taxes and rates. Taxpayers need more information regarding the factors that contribute to increasing property-tax liabilities for individual homeowners. Are property taxes going up because property values are increasing, or are local decision makers increasing property-tax rates? Transparency, and therefore accountability, is improved when taxpayers are better informed about changes in property-tax revenues and related changes in property-tax rates.⁷¹

Second, there is the idea of a tax expenditure budget that identifies public policies that deprive local governments of property-tax revenues and result in distortions that could ultimately undermine the legitimacy of the tax. Tax expenditures, however, should not be viewed simply as a government accounting and reporting system. Surrey argued that these special provisions in the tax code were equivalent to taxing everyone at the full tax rate and then giving some taxpayers preferred treatment by subsidizing taxpayer activities. Thus, tax expenditures should properly be viewed not as revenue policies, but as spending programs.

By converting what appear to be problems with tax reform to problems of spending reform, the tax expenditure mind-set involves asking a different set of questions associated with spending programs: what is the goal of the program, how cost-effective is the approach, what are the distributional consequences of the program, and should the program be replaced with a direct expenditure program?⁷²

A tax expenditure budget for local property taxes should including the following type of information:

- A description of each property-tax relief mechanism;
- The cost of each property-tax relief mechanism in terms of foregone revenues for the current fiscal year;
- The estimated cost of each property-tax relief mechanism for future years to allow comparison with other proposed expenditures;
- The relevant legal citation for each property-tax relief mechanism and the year of enactment; and
- Details on the taxpayers who benefit from each property-tax relief mechanism.

Developing such a tax expenditure budget for local property taxes will achieve the following benefits:

- Improve transparency by making the consideration of the costs and benefits of each property-tax relief mechanism an explicit part of each year's budget process;
- Encourage accountability by requiring state and local policymakers to annually consider and approve the costs and distribution of benefits associated with each property-tax relief mechanism;
- Save money as property-tax relief is treated in a more informed way so that relief can be concentrated on those most in need at a lower overall cost of foregone revenues to state and local governments; and
- Promote efficiency in taxation by broadening the base of the property tax and reducing the tax rate needed to raise a given amount of tax revenue.

Developing such a tax expenditure budget for the property tax will create an environment where property-tax relief can be targeted to those most in need and relief going to those not in need can be reduced or eliminated, thereby broadening the base of the tax.

Appendix 11.2 Effective property-tax rates, 2006 and 2009

Median Priced Urban Residential							
2006			2009				
State	City	Median Value	Effective Prop Tax Rate	State	City	Median Value	Effective Prop Tax Rate
Highest Five Effective Tax Rates							
Michigan	Detroit	\$ 156,200	3.33%	Michigan	Detroit	\$ 10,735	3.26%
New York	Buffalo	\$ 99,800	2.46%	Connecticut	Bridgeport	\$ 380,200	2.71%
Pennsylvania	Philadelphia	\$ 215,100	2.43%	Illinois	Aurora	\$ 204,300	2.69%
Illinois	Aurora	\$ 265,600	2.40%	Pennsylvania	Philadelphia	\$ 211,000	2.62%
Wisconsin	Milwaukee	\$ 214,900	2.32%	New York	Buffalo	\$ 115,400	2.39%
Lowest Five Effective Tax Rates							
Hawaii	Honolulu	\$ 620,000	0.34%	Hawaii	Honolulu	\$ 569,500	0.28%
Colorado	Denver	\$ 247,500	0.53%	Colorado	Denver	\$ 223,700	0.53%
New York	New York City	\$ 454,100	0.59%	South Carolina	Columbia	\$ 137,900	0.54%
Wyoming	Cheyenne	\$ 165,000	0.65%	Massachusetts	Boston	\$ 336,100	0.55%
Massachusetts	Boston	\$ 397,500	0.65%	Arizona	Phoenix	\$ 131,000	0.59%

Source: Minnesota Taxpayers Association (2010).

Appendix 11.1 Reliance of total property-tax revenues (real and personal), 2008

	% Gen Rev	% Own Rev	% Tax Rev	PT Per Capita	PT Per \$1000 PI
United States	28.3%	45.3%	72.3%	\$ 1,306	\$ 32.85
Alabama	11.6%	19.8%	40.3%	\$ 430	\$ 12.78
Alaska	26.2%	44.4%	75.3%	\$ 1,438	\$ 33.19
Arizona	22.7%	38.7%	62.5%	\$ 893	\$ 27.09
Arkansas	9.9%	22.9%	41.6%	\$ 273	\$ 8.74
California	22.3%	39.5%	73.5%	\$ 1,373	\$ 32.17
Colorado	26.7%	36.2%	61.2%	\$ 1,241	\$ 29.29
Connecticut	56.7%	83.4%	97.7%	\$ 2,378	\$ 42.27
Delaware	23.2%	45.8%	77.4%	\$ 693	\$ 16.96
District of Columbia	17.2%	24.6%	32.0%	\$ 2,920	\$ 44.93
Florida	33.5%	46.6%	80.7%	\$ 1,651	\$ 42.26
Georgia	26.4%	38.6%	65.1%	\$ 1,047	\$ 30.81
Hawaii	47.9%	57.9%	78.9%	\$ 973	\$ 24.03
Idaho	22.3%	37.9%	91.7%	\$ 775	\$ 24.11
Illinois	37.2%	56.4%	81.9%	\$ 1,646	\$ 38.82
Indiana	29.9%	46.9%	88.4%	\$ 1,086	\$ 31.86
Iowa	29.8%	46.8%	80.0%	\$ 1,239	\$ 33.77
Kansas	30.8%	47.3%	76.5%	\$ 1,288	\$ 33.91
Kentucky	19.1%	32.5%	55.5%	\$ 533	\$ 16.75
Louisiana	15.2%	24.2%	40.2%	\$ 633	\$ 17.45
Maine	48.5%	74.5%	98.7%	\$ 1,610	\$ 45.51
Maryland	25.1%	38.2%	50.1%	\$ 1,062	\$ 22.07
Massachusetts	43.0%	72.2%	96.5%	\$ 1,795	\$ 35.37
Michigan	28.1%	52.8%	92.2%	\$ 1,186	\$ 33.59
Minnesota	24.5%	45.1%	92.5%	\$ 1,134	\$ 26.52
Mississippi	20.3%	37.0%	92.1%	\$ 765	\$ 25.88
Missouri	26.5%	38.4%	61.2%	\$ 922	\$ 26.18
Montana	30.1%	52.4%	96.4%	\$ 987	\$ 28.81
Nebraska	32.1%	44.8%	75.7%	\$ 1,392	\$ 36.90
Nevada	22.5%	36.8%	67.6%	\$ 1,163	\$ 28.82
New Hampshire	55.0%	80.7%	98.4%	\$ 2,029	\$ 47.37
New Jersey	53.7%	76.6%	98.0%	\$ 2,615	\$ 51.35
New Mexico	14.1%	32.2%	50.8%	\$ 537	\$ 16.75
New York	26.0%	40.0%	53.6%	\$ 2,005	\$ 41.70
North Carolina	23.0%	39.5%	75.5%	\$ 853	\$ 24.78
North Dakota	32.6%	52.9%	85.6%	\$ 1,151	\$ 29.26
Ohio	26.1%	43.5%	66.1%	\$ 1,182	\$ 33.28
Oklahoma	18.6%	30.7%	53.0%	\$ 580	\$ 15.72
Oregon	26.6%	44.5%	80.6%	\$ 1,118	\$ 31.08
Pennsylvania	28.1%	47.9%	70.4%	\$ 1,243	\$ 30.88
Rhode Island	52.5%	79.3%	97.6%	\$ 1,963	\$ 47.87
South Carolina	26.4%	39.8%	82.8%	\$ 958	\$ 30.03
South Dakota	32.7%	48.0%	72.9%	\$ 1,068	\$ 28.57
Tennessee	23.2%	34.6%	62.6%	\$ 751	\$ 21.89
Texas	34.9%	51.0%	80.4%	\$ 1,379	\$ 35.74
Utah	25.0%	41.2%	68.0%	\$ 811	\$ 26.76
Vermont	17.3%	56.4%	93.8%	\$ 591	\$ 15.19
Virginia	33.8%	53.1%	73.8%	\$ 1,358	\$ 31.66
Washington	20.0%	31.3%	57.1%	\$ 926	\$ 21.87
West Virginia	25.6%	46.4%	79.7%	\$ 680	\$ 22.04
Wisconsin	36.1%	63.7%	93.8%	\$ 1,547	\$ 41.45
Wyoming	22.7%	38.0%	76.1%	\$ 1,842	\$ 37.05

Source: US Bureau of Census, Statistical Abstract of the US (2010), selected tables; US Bureau of Census, Government Finances (2008).

Appendix 11.3 Significant features of the property tax: Preferential treatment of properties, 2008

State	Farmland	Timber	Historic*	Open Space
Alabama	X		X	
Alaska	X			
Arizona	X			X
Arkansas	X	X		
California	X	X	X	X
Colorado	X	X		X
Connecticut	X	X		X
Delaware	X	X		
District of Columbia			X	
Florida	X		X	X
Georgia	X	X	X	X
Hawaii	X		X	
Idaho	X	X		
Illinois	X	X	X	X
Indiana	X	X		
Iowa	X		X	
Kansas	X			
Kentucky	X			
Louisiana	X			
Maine	X	X		X
Maryland	X			
Massachusetts	X	X		X
Michigan	X	X		X
Minnesota	X	X		X
Mississippi	X			
Missouri	X	X		
Montana	X	X		
Nebraska	X			
Nevada	X			X
New Hampshire	X	X		X
New Jersey	X			
New Mexico	X			
New York	X	X		
North Carolina	X	X	X	
North Dakota	X	X		X
Ohio	X	X		X
Oklahoma	X			
Oregon	X	X	X	X
Pennsylvania	X	X		X
Rhode Island	X	X		X
South Carolina	X			
South Dakota	X			
Tennessee	X	X		X
Texas	X	X		X
Utah	X			
Vermont	X	X		X
Virginia	X	X		X
Washington	X	X		X
West Virginia	X	X		
Wisconsin	X	X	X	
Wyoming	X			

* Does not include any property tax relief based on the increased value due to improvements made to historic properties.

Source: Lincoln Institute of Land Policy and George Washington Institute of Public Policy, "Significant Features of the Property Tax," <https://www.lincolnst.edu/subcenters/significantfeatures-property-tax>

Appendix 11.4 Significant features of the property tax: State limits on property-tax levies

State	Levy Limit	Rate Limit
Alabama		X
Alaska	X	X
Arizona	X	X
Arkansas	X	X
California		X
Colorado	X	X
Connecticut		
Delaware	X	
District of Columbia	X	X
Florida		X
Georgia		X
Hawaii		
Idaho	X	X
Illinois	X	X
Indiana	X	X
Iowa		X
Kansas		
Kentucky	X	X
Louisiana	X	X
Maine	X	
Maryland		
Massachusetts	X	X
Michigan	X	X
Minnesota	X	X
Mississippi	X	
Missouri		X
Montana	X	X
Nebraska	X	X
Nevada	X	X
New Hampshire		
New Jersey	X	
New Mexico	X	X
New York	X	X
North Carolina		X
North Dakota	X	X
Ohio	X	X
Oklahoma		X
Oregon		X
Pennsylvania	X	X
Rhode Island	X	
South Carolina	X	
South Dakota	X	X
Tennessee		
Texas	X	X
Utah		X
Vermont		
Virginia	X	
Washington	X	X
West Virginia	X	X
Wisconsin	X	X
Wyoming	X	

Source: Lincoln Institute of Land Policy and George Washington Institute of Public Policy, "Significant Features of the Property Tax," <https://www.lincolninst.edu/subcenters/significantfeatures-property-tax>.

NOTES

- 1 The US Census Bureau collects and publishes information on property-tax revenues for state and local governments. The reported revenue figures include revenues from taxes on both real and personal property.
- 2 The Census Bureau defines property-tax revenues to include revenues from general property taxes including real property (e.g., land and structures) as well as personal property, which may be either tangible (e.g., automobiles and boats) or intangible (e.g., bank accounts and stocks and bonds). General sales-tax revenues include taxes applicable to sales of all types of taxable goods and services or to all gross receipts, whether at a single rate or at classified rates; and sales use taxes. Personal income taxes are taxes on individuals measured by net income and taxes on special types of income (e.g., interest, dividends, income from intangible property, etc.). For local governments, the personal income tax includes wages, salaries, and other compensation earned by both residents and nonresidents that are subject to tax collections by the reporting government. See US Census Bureau (2006).
- 3 The state and local government implicit price deflator is used to adjust for inflation. It is heavily weighted by wages and salaries in state and local government but also includes estimates for the entire range of government purchases. The deflator equals 100 for 2005 and can be found at <http://www.bea.gov/national/nipaweb/TableView.asp?SelectedTable=13&ViewSeries=NO&Java=no&Request3Place=N&3Place=N&FromView=YES&Freq=Year&FirstYear=1972&LastYear=2008&3Place=N&Update=Update&JavaBox=no>.
- 4 General revenue comprises all revenue except that classified as liquor store, utility, or insurance trust revenue. There are four types of revenue within general revenue sector: taxes, intergovernmental revenue, current charges, and miscellaneous general revenue. Taxes are compulsory contributions exacted by a government for public purposes, other than for employee and employer assessments and contributions to finance retirement and social insurance trust systems. Tax revenue comprises gross amounts collected (including interest and penalties) minus amounts paid under protest and amounts refunded during the same period. It consists of all taxes imposed by a government whether the government collects the taxes itself or relies on another government to act as its collection agent. Own-source revenues are all general revenues minus intergovernmental revenues including taxes, current charges, and miscellaneous revenues. See US Census Bureau (2006).
- 5 Data for 1972, 1977, and 1982 come from 1982 Census of Governments, Volume 6: Topical Studies, Number 4: Historical Statistics on Government Finances and Employment, selected tables, GC82(6)-4. Government finance data for 1992, 2002, and 2007 come from Census of Governments for each year accessed at <http://www.census.gov/govs/>. Government finance data for 2008 come from the state and local government finance annual series, which can be accessed through the same website. Data for population and personal income come from the 2010 Statistical Abstract of the United States accessed at <http://www.census.gov/compendia/statab/>.
- 6 Kentucky (32.5 percent), New Mexico (32.2 percent), Washington (31.3 percent), Oklahoma (30.7 percent), Louisiana (24.2 percent), Arkansas (22.9 percent), and Alabama (19.8 percent).
- 7 Vermont (\$591), Oklahoma (\$580), New Mexico (\$537), Kentucky (\$533), Alabama (\$430), and Arkansas (\$273).

- 8 Louisiana (\$17.45), Delaware (\$16.96), Kentucky (\$16.75), New Mexico (\$16.75), Oklahoma (\$15.72), Vermont (\$15.19), Alabama (\$12.78), and Arkansas (\$8.74).
- 9 Bell and Kirschner (2009).
- 10 The MTA approach to calculating effective property-tax rates assumes that the property-tax calculation has five distinct components:
- a “true” market value (TMV)
 - a local assessment/sales ratio (SR)
 - a statutory classification rate to determine the proportion of the assessor’s estimated market value that is taxable (CR)
 - the total local property-tax rate (TR)
 - applicable property-tax credits (C)
- Thus the net local property-tax liability for each parcel of property can be written:
- $$\text{Net Property Tax} = \text{TMV} \times \text{SR} \times \text{CR} \times \text{TR} - \text{C}$$
- These net tax liabilities are then compared with the true market value for each individual property to determine effective property-tax rates.
- 11 Minnesota Taxpayers Association (2010).
- 12 Witte (2009), 314.
- 13 Alm et al. (2010), 23.
- 14 Giertz (2006).
- 15 Fisher (1996), 303.
- 16 NCSL (1992).
- 17 The property tax is different from other state and local taxes because the tax base, estimated market value, must be determined by the government. The property tax is a tax on wealth, a stock variable, which does not change hands annually. In contrast, the base of the personal income tax or general sales tax is based on annual economic flows.
- 18 For example, see Bowman (1998), 132; Brunori (2007), 48–50.
- 19 Stiglitz (1988), 545–546.
- 20 Aaron (1975), 38–55.
- 21 Eckert (1990), 516.
- 22 Bahl et al. (2010), 14.
- 23 Giertz (2006), 695. For a discussion of tax limitations, see Gordon (this volume).
- 24 Anderson (2006), 692–693.
- 25 Lynn (1969).
- 26 Wallis (2001) describes how the property tax evolved from a fixed amount per acre of agricultural land in the early nineteenth century to an ad valorem tax because the ad valorem tax was thought to place a larger (and fairer) share of the tax burdens on properties where land values were rising most quickly as a result of large public investments like canals.
- 27 Bowman (1995), 8, table 1.3.
- 28 Dornfest et al. (2010), 12, table 8.
- 29 Bowman (1995), 8, table 1.3.
- 30 Cornia (1995), 26–27.
- 31 Giertz (2006), 697–698.
- 32 Bowman (2007), 32.
- 33 Ibid.
- 34 Gravelle and Wallace (2009), 37.
- 35 Bonnet (1998).
- 36 Strauss (2001).

- 37 Gravelle and Wallace (2009), 26.
 38 Strauss (2001).
 39 Green, Chevrin, and Lippard (2002).
 40 Wassmer (2009).
 41 Wassmer derives these estimates from Johnson (1962), table 1, and Bridges (1965), table 1.
 42 Wassmer (2009), 249.
 43 Bowman, Cordes, and Metcalf (2009), 274, table 9.1.
 44 Ibid., table 9.3.
 45 Green and Weiss (2009), 64–65.
 46 Kincaid and Cole (2001), 207.
 47 Fisher et al. (2010).
 48 Ibid., 197.
 49 Yuan et al. (2009), 155.
 50 Ibid., 155–156.
 51 For a fuller discussion of classified property taxes, see Bowman (2009, 1998).
 52 Sexton (2003).
 53 Bowman (2009), 93–94.
 54 Sexton (2009), table 5.1.
 55 Haveman and Sexton (2008), 8, 12–15; Sexton (2009), table 5.1.
 56 Haveman and Sexton (2008), 14.
 57 Ibid., 26.
 58 O’Sullivan, Sexton, and Sheffrin (1995).
 59 O’Sullivan et al. (1994).
 60 Sexton (2008).
 61 Ibid.
 62 Ibid.
 63 Ibid.; O’Sullivan et al. (1995).
 64 Witte (2009), 314.
 65 Dye (2010), 231.
 66 Ibid., 232–235.
 67 Brunori (2007), 124–125.
 68 Fisher (2009).
 69 See Bowman (2009) and Bowman, Kenyon, Langley and Paquin (2009) for a discussion of the various types of circuit-breaker programs, a survey of current practices across states and design issues to consider as such programs are expanded.
 70 Pomp (2002), 389, as cited in Brunori (2007), 130.
 71 Witte (2009), 332–333.
 72 Gravelle (2005), 406–408; Ladd (1994), 50–51.

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