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Homestead Exemptions: Some Considerations for Colorado

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February 23, 2024

Homestead Exemptions: Pros and Cons

Cons

- × Expensive
- × Insufficient relief for most heavily burdened households
- More cost-effective options:
 - **Circuit breakers** offset property taxes above a threshold percentage of income
 - **Deferrals** allow homeowners to defer payment of property taxes until home is sold or owner dies
 - **Learn more:** [Property Tax Relief for Homeowners](#) (2021)

Homestead Exemptions: Pros and Cons

Cons

- × Expensive
- × Insufficient relief for most heavily burdened households
- More cost-effective options: Circuit breakers and deferrals

Pros

- ✓ Make property tax distribution more progressive
 - Can offset assessment inequities with modest exemption
- ✓ Simple to administer
- ✓ High participation rate
- ✓ Universal benefit may be politically preferable

Outline

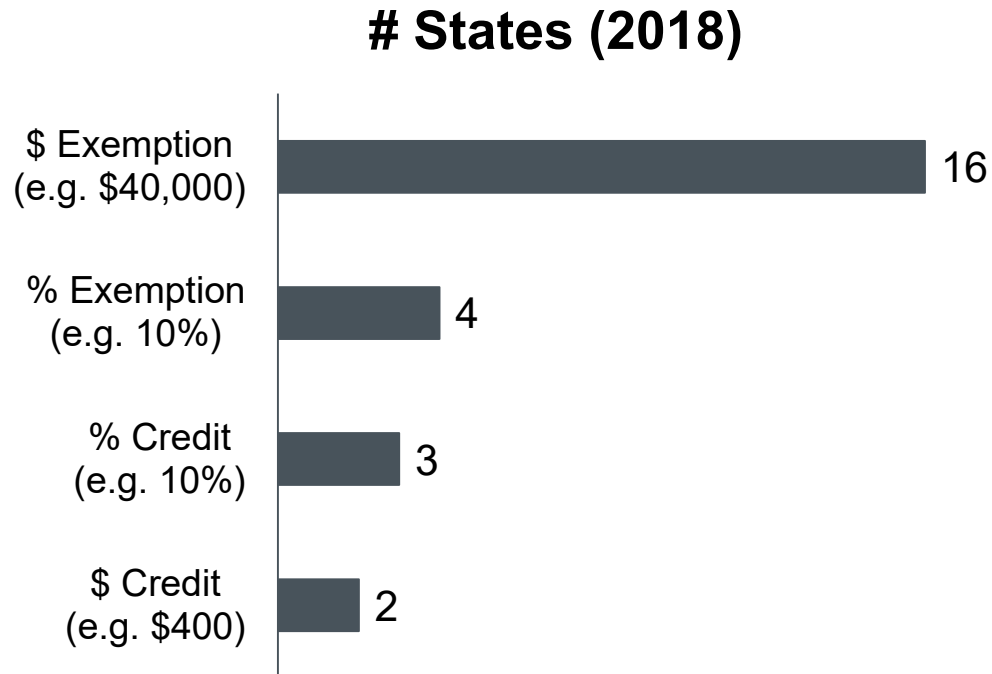
- **Key features of homestead exemptions**
 - Eligibility
 - Four approaches to provide relief
 - State- vs. local-funding
- **Other considerations**

Eligibility

- All owner-occupied primary residences (25 states)
 - Seniors only (8 states)
- Businesses, renters, 2nd homes ineligible
 - Bear larger share of tax burden (Especially if state does not provide aid to offset local revenue loss)

Four Approaches for Relief

- **Exemption** or **credit** against property tax bill
- Fixed **dollar** amount or specified **percentage**



Note: Count is for broad-based exemptions and credits available for all primary residences, not narrower programs just for seniors, veterans, or disabled persons.

Source: Lincoln Institute of Land Policy. [Significant Features of the Property Tax](#). Residential Property Tax Relief Programs: [Summary Table on Exemptions and Credits in 2018](#).

Four Approaches for Relief

- **Exemption** or **credit** against property tax bill
- Fixed **dollar** amount or specified **percentage**

Key Differences

- Progressivity
 - Only flat dollar exemptions or credits make property tax distribution more progressive
- Incentives for higher local taxes/spending
 - Only flat dollar credits provide relief without creating an incentive for higher taxes/spending
 - With 3 other approaches, amount of relief increases when property tax rates rise, so homeowners don't bear full cost of higher local taxes/spending at the margin

State vs. Local Funding

- **Local funding (12 states)**
 - Local gov't offsets drop in property tax base by raising tax rates or cutting spending
 - Higher tax rates reduce net tax relief for homeowners
 - Large tax shift to ineligible taxpayers
(Businesses, renters, and 2nd homes)
- **State funding (9 states)**
 - State aid to localities to offset drop in property tax revenues
 - Offsets fiscal disparities between communities
 - Reduces tax shift to businesses/renters and provides larger property tax savings for homeowners
(Especially in communities that are poorer and/or largely residential)
 - Incentive for local voters to support higher property tax rates since part of the cost covered by state gov't
*(This is minimized with flat **dollar** credit – e.g. \$400)*
- **Shared funding (4 states)**
 - State could offset certain percentage of local revenue loss or reimburse localities fixed amount per homestead

Outline

- **Key features of homestead exemptions**
 - Eligibility
 - Four approaches to provide relief:
 - **Exemption** or **credit** against property tax bill
 - Fixed **dollar** amount or specified **percentage**
 - State vs. local funding
- **Other considerations**

Inflation adjustment

- Homestead exemptions normally NOT indexed to inflation
 - Over time, real value of relief diminishes

Vary Amount of Exemption Across State

- Set exemption amount equal to fixed percentage of median home value for county (or city, metro area)
- Otherwise, if amount of flat dollar exemption or credit is fixed across state
 - Tax savings and revenue loss relatively higher in areas w/lower property values
- Varying exemption amount more important with locally funded programs

Local Option vs. Statewide Program

- Local option programs (AK, HI, MA, PA)
- Local option to increase benefit on top of statewide program (AL, GA, IL, TX)
- Local option makes sense for locally funded programs
 - Impact of homestead exemptions varies:
 - Greater in communities with large business tax base, lots of 2nd homes, and/or large variations in home values
 - Limited in residential communities w/out much dispersion in home values
 - Especially important in Colorado given TABOR's restrictions on raising mill rates

Exemption Against Specific Property Taxes

- Exemption against school property taxes only
 - AZ, MI, NY, SC, TX, WI
- Florida provides *smaller* exemption for school taxes (\$25k) and *larger* exemption for all other levies (\$50k)
- Exemption does not apply municipal taxes in Louisiana, or special assessments in New Mexico

Restrict Tax Shifts Across Property Classes

- **Boston**

- 1st: Allocate tax levy across City's four property classes based on their full value *without* any homestead exemptions
- Then: Residential tax rate is calculated based on net residential value (i.e. Total value – Residential exemption)
- Exemption creates more progressive property tax distribution among homeowners w/out shifting tax to non-residential classes

- **Colorado**

- About the largest disparities in effective tax rates for residential vs. commercial property in the nation
(Source: [50-State Property Tax Comparison Study](#))
- Further tax shift to non-residential property could reduce economic growth
- Consider whether a homestead exemption could shift the tax burden to renters

Income Ceilings and Maximum Property Value

- **Income Ceilings**

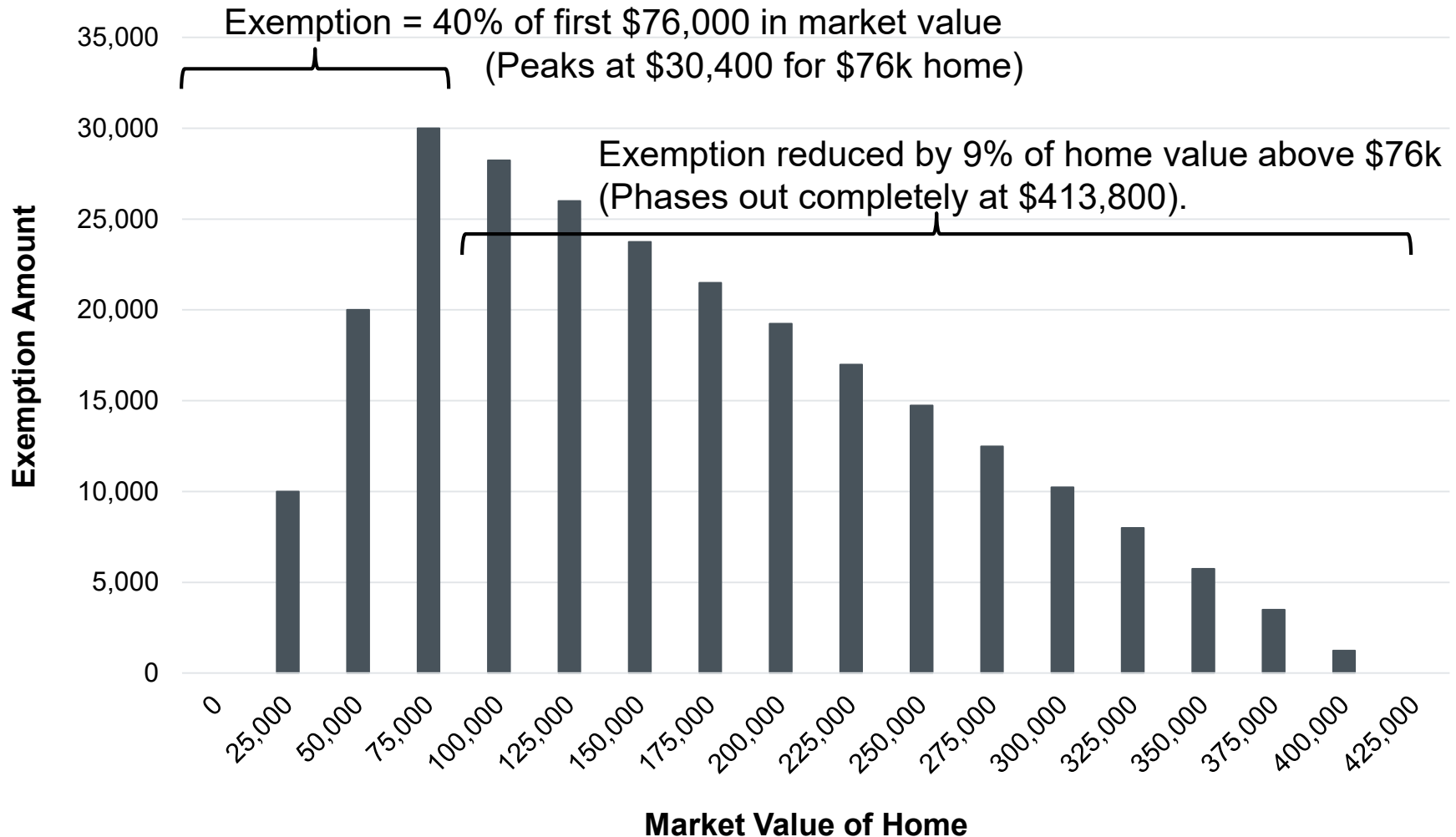
- No state uses income ceilings for programs for all primary residences, but about half of states do for programs for seniors
- Verifying income typically requires annual application
 - Participation rate ↓ Administrative costs ↑

- **Maximum Property Value**

- Avoids providing relief to high value homes
- But easy to administer and no burden on taxpayers (Unlike other approaches to means testing benefits)
- Could set statewide max property value for eligibility (IN), vary max property value by county (NE), or phase-out amount of exemption as assessed values rise (MN)

Phase Out Exemption Amount with Assessed Value

Minnesota's Homestead Market Value Exclusion



Residency Requirements

- General homestead exemptions: No states require home to have been owned & occupied for more than a year
- Senior homestead exemptions:
 - Colorado's requirement is unusually long
 - To qualify, must have owned homestead for 10 years
 - MA is closest: Requires that seniors have *lived in* state for 10 years and owned *any* home in state for 5 years
 - A few other states require seniors to have...
 - *Lived in* state for more than a year: NH (3 yrs), UT (2 yrs)
 - *Owned* their home for more than a year: NJ (3 yrs), AZ (2 yrs)

- Homestead exemptions:
 - × Untargeted – Expensive, inadequate relief for some taxpayers
 - ✓ Progressive, simple, high participation rates, universal
- Four approaches to provide tax relief
 - Only flat dollar exemptions/credits make tax more progressive
 - Only flat dollar credits avoid incentivizing higher local taxes
- State vs. local funding
 - State funding reduces tax shift to businesses/renters and provides larger property tax savings for homeowners
- Other considerations
 - Adjust for inflation
 - Vary amount of exemption across state
 - Local option vs. statewide program
 - Exemption against *all* property taxes or *specific* property taxes
 - Restrict tax shifts across property classes
 - Income ceilings, max property value, phase out exemption
 - Residency requirements

Learn More:

- [Property Tax Relief for Homeowners](#) (64 pg.)
- [How Do States Spell Relief? A National Study of Homestead Exemptions and Property Tax Credits](#) (8 pg.)
- [Significant Features of the Property Tax.](#)
 - Residential Property Tax Relief Programs: [Summary Table on Exemptions and Credits in 2018.](#)