Property Tax Relief for Homeowners

Adam H. Langley
Associate Director of Tax Policy, Lincoln Institute of Land Policy

Joan Youngman
Senior Fellow, Lincoln Institute of Land Policy

January 5, 2024: Colorado Property Tax Commission

Outline
• Strengths and Challenges
• Recommendations

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Revenue Raised by Local Government (2019)

| Source: U.S. Census Bureau, Annual Survey of State and Local Government Finances |
|-------------------|------------------|------------------|
| Property Tax      | 46%              |
| Sales Tax         | 8.2%             |
| Income Tax        | 3.8%             |
| Other Taxes       | 6.1%             |
| Charges           | 27%              |
| Miscellaneous     | 8.9%             |
Strengths of the Property Tax

- A stable revenue source
- An immobile tax base
- Visibility and transparency

% Change in State and Local Taxes (Real Per Capita)

<table>
<thead>
<tr>
<th>Year</th>
<th>Property</th>
<th>Sales</th>
<th>Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001 Recession</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007-09 Recession</td>
<td>20%</td>
<td>21%</td>
<td></td>
</tr>
</tbody>
</table>

**Strengths of the Property Tax**
- A stable revenue source
- An immobile tax base
- Visible and transparent
- **Efficiency**

**Challenges for the Property Tax**
- Fiscal disparities

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- **Liquidity constraints**
Challenges for the Property Tax

- Fiscal disparities
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- Volatility

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- Inaccurate assessments

Challenges for the Property Tax

- Fiscal disparities
- Liquidity constraints
- Volatility
- Inaccurate assessments
- Visibility
Outline

- Strengths and Challenges
- Recommendations
  1) Quality Assessment Practices
  2) Effective State Aid
  3) Targeted Property Tax Relief
  4) Monthly Property Taxes
  5) Avoid Tax Limits, Especially Assessment Limits

1. Quality Assessment Practices

Tax Inequities Grow without Reassessment

- Accurate assessments are essential for fairness
- Assessment accuracy requires:
  - Regular revaluations
  - Modern valuation techniques
  - State oversight
  - Effective appeals systems
- When property values rise, tax rates should be reduced
  - This will keep tax bills stable
2. Effective State Aid

- State aid is the only way to offset fiscal disparities and ensure all local governments provide adequate services.
- Increasing state aid is NOT an efficient way to provide property tax relief.
  - $10m state aid increase
  - $6m property tax decrease ($4m local spending increase)
  - $3m property tax cut for homeowners ($3m for non-residential)
  - Most benefits to high-value homes
- State-funded property tax relief is more efficient.

3. Property Tax Relief: Circuit Breakers

- Prevent households from being overburdened by property taxes
  - Target relief to households with the heaviest tax burdens.
- Definition: “Classic” circuit breaker 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

- Circuit breaker kicks in above 5%.
- Property Tax as % Income.
- Circuit breaker credit.
- Property Tax Due.
3. Property Tax Relief: **Deferrals**
- Homeowners defer payment of property taxes until home is sold or owner dies
  - Full amount of deferred taxes then due, with interest added
- Eligibility typically restricted to low-income seniors

3. Property Tax Relief: **Other Options**

<table>
<thead>
<tr>
<th>Relief Option</th>
<th>Example</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homestead Exemption</td>
<td>First $20,000 exempted (or 20% exempted)</td>
<td>Makes property tax distribution fairer (Fixed dollar only)</td>
</tr>
<tr>
<td>Homestead Credit</td>
<td>$200 credit (or 20% credit)</td>
<td>Fairer tax distribution; Avoids incentive for higher local spending</td>
</tr>
<tr>
<td>Income-Based Homestead Credit</td>
<td>75% credit: Income ≤ $10k 50% credit: Income $10-20k 25% credit: Income $20-30k</td>
<td>More cost-effective</td>
</tr>
<tr>
<td>Credits for Rapid Growth in Property Tax</td>
<td>Credit offsets property tax increase above 10% from prior year</td>
<td>Good alternative to assessment limits</td>
</tr>
</tbody>
</table>

3. Property Tax Relief: **Pros & Cons of Options**

<table>
<thead>
<tr>
<th>Relief Option</th>
<th>Cost Effectiveness</th>
<th>Who Gets Tax Relief *</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homestead Exemptions &amp; Credits</td>
<td>Low</td>
<td>All homeowners</td>
</tr>
<tr>
<td>Income-Based Homestead Credits</td>
<td>Moderate</td>
<td>All lower income homeowners</td>
</tr>
<tr>
<td>Circuit Breakers</td>
<td>High</td>
<td>Only households with heavy tax burdens</td>
</tr>
<tr>
<td>Deferrals</td>
<td>Very High</td>
<td>Delay but don’t cut property taxes</td>
</tr>
</tbody>
</table>

* Many states add other eligibility criteria, such as age.

Best approach pairs a circuit breaker with a deferral
4. Monthly Property Taxes

- Half of homeowners pay property tax 1 or 2x per year → Financial challenges for many households
- 37% don’t have $400 for emergency expense (Fed)

Median Property Tax Bill = $2,578

Monthly Bill = $215


• Solution: Allow monthly property tax payments
  - Prepayments: Allowed in at least 16 states
    - Apply to pay monthly → Funds accumulate in escrow account
  - Monthly Installments: Milwaukee (WI)
    - Tax bill includes option to pay in full or monthly installments


5. Avoid Tax Limits, Especially Assessment Limits

<table>
<thead>
<tr>
<th>3 Types of Tax Limits</th>
<th>AR: Tax rate for municipalities can’t exceed 5 mills</th>
<th>CA: Assessed value can’t grow more than 2% per year</th>
<th>MA: Tax revenue can’t grow more than 2.5% per year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate Limit</td>
<td>Cap tax rate for specific local governments</td>
<td>Cap annual growth in assessed value of individual properties</td>
<td>Cap annual growth in overall property tax revenues in a jurisdiction</td>
</tr>
<tr>
<td>Assessment Limit</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Levy Limit</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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5. Avoid Tax Limits, Especially Assessment Limits

• **Effects of Tax Limits**
  - Reduced flexibility and local autonomy
  - Change revenue mix to less reliable sources
  - Restrictive tax limits erode quality of local services
  - **Assessment limits have most severe consequences**

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5. Avoid Tax Limits, Especially Assessment Limits

• **Effects of Assessment Limits**
  - Shift tax burden to poorer neighborhoods

[Insert chart showing median effective tax by neighborhood for residential properties with 1-3 units (2017)]


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5. Avoid Tax Limits, Especially Assessment Limits

• **Effects of Assessment Limits**
  - Shift tax burden to poorer neighborhoods
  - Large disparities in tax bills for similar properties

[Insert table showing effective property tax rates for 5 blocks in Los Angeles (2015)]

<table>
<thead>
<tr>
<th>Effective Property Tax Rate</th>
<th>Households (Count)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.8% +</td>
<td>20</td>
</tr>
<tr>
<td>0.6 to 0.8%</td>
<td>23</td>
</tr>
<tr>
<td>0.4 to 0.6%</td>
<td>20</td>
</tr>
<tr>
<td>0.2 to 0.4%</td>
<td>7</td>
</tr>
<tr>
<td>Under 0.2%</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: Analysis of data from “Common Claims about Proposition 13,” CA Legislative Analyst’s Office (2016, 8).
5. Avoid Tax Limits, Especially Assessment Limits

- **Effects of Assessment Limits**
  - Shift tax burden to poorer neighborhoods
  - Large disparities in tax bills for similar properties
  - Lock-in effect discourages mobility

5. Avoid Tax Limits, Especially Assessment Limits

- **Truth in Taxation**: Alternative approach
  - Increases in property tax revenues due to higher values, are subject to same procedures as required for an increase in property tax rate under state law
    - Public hearings, public votes, mailings, etc.
  - Otherwise, tax rate automatically adjusted down to revenue neutral rate
  - Facilitates transparency and responsive rate-setting without imposing a binding constraint

Recap

- **Strengths** of the property tax
  - Stable revenue source
  - Immobile tax base
  - Transparency promotes accountability
  - Efficiency

- Design relief programs to address challenges, but avoid untargeted measures that undermine strengths and create new unintended consequences
Recap

- Keys to an Equitable and Efficient Property Tax System

- Learn More: Property Tax Relief for Homeowners (2021)
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