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OF LAND POLICY

Property Tax Relief for Homeowners

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Property Tax Relief
for Homeowners

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Outline

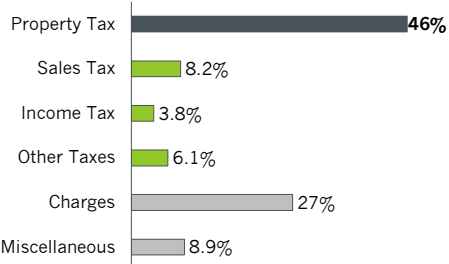
- Strengths and Challenges
- Recommendations

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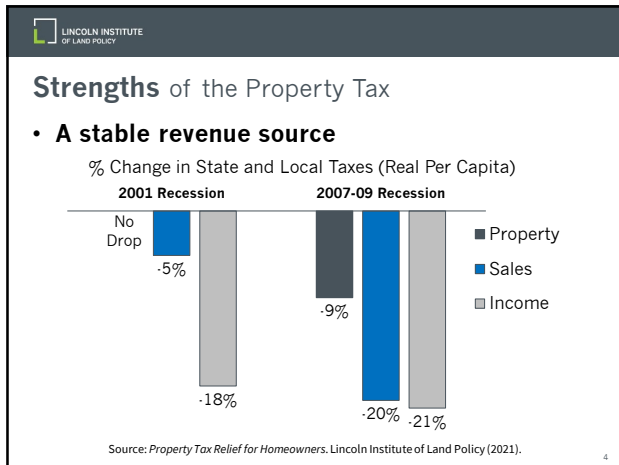
Revenue Raised by Local Government (2019)

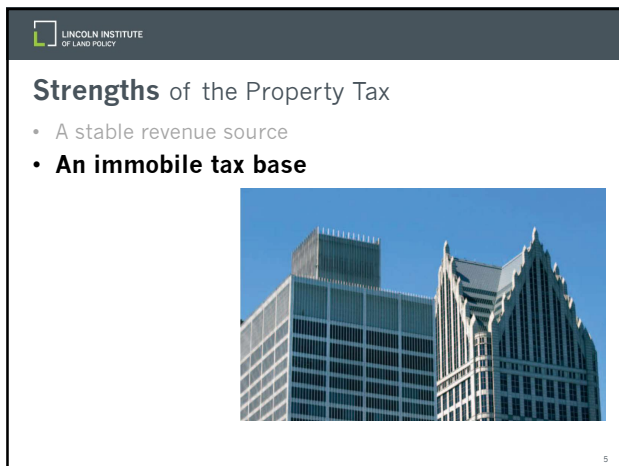


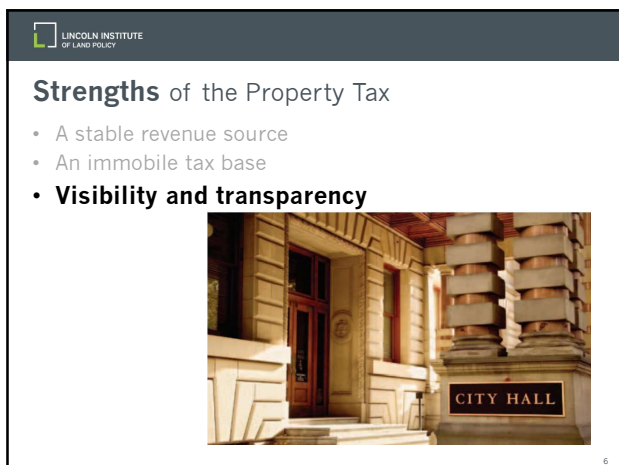
Property Tax	46%
Sales Tax	8.2%
Income Tax	3.8%
Other Taxes	6.1%
Charges	27%
Miscellaneous	8.9%

Source: U.S. Census Bureau. *Annual Survey of State and Local Government Finances*.

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Strengths of the Property Tax

- A stable revenue source
- An immobile tax base
- Visible and transparent
- **Efficiency**

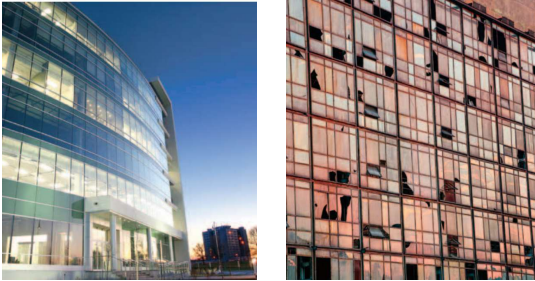


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Challenges for the Property Tax

- **Fiscal disparities**




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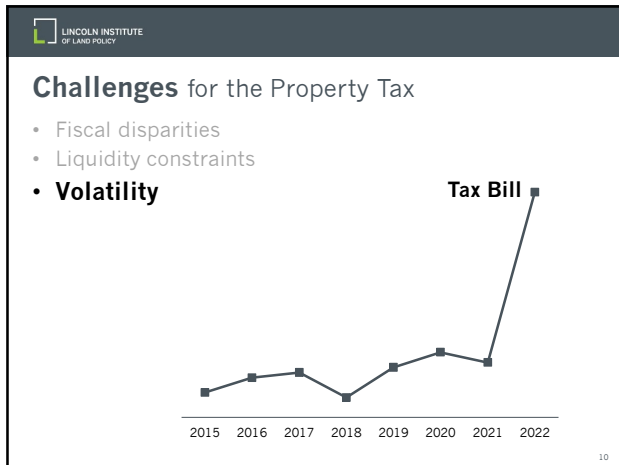


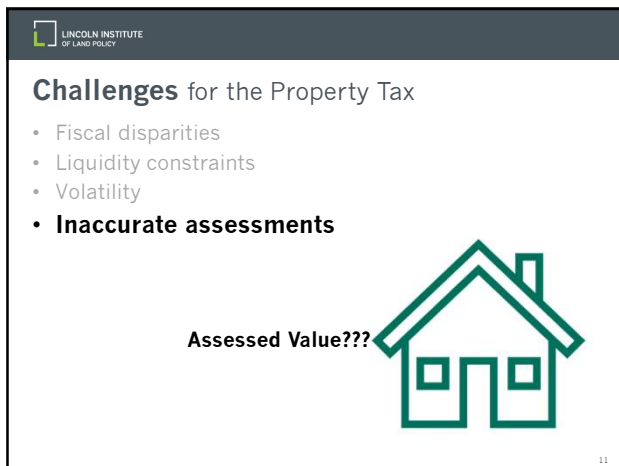
Challenges for the Property Tax

- Fiscal disparities
- **Liquidity constraints**




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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

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1. Quality Assessment Practices

Tax Inequities Grow without Reassessment

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1. Quality Assessment Practices

- 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

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2. Effective State Aid

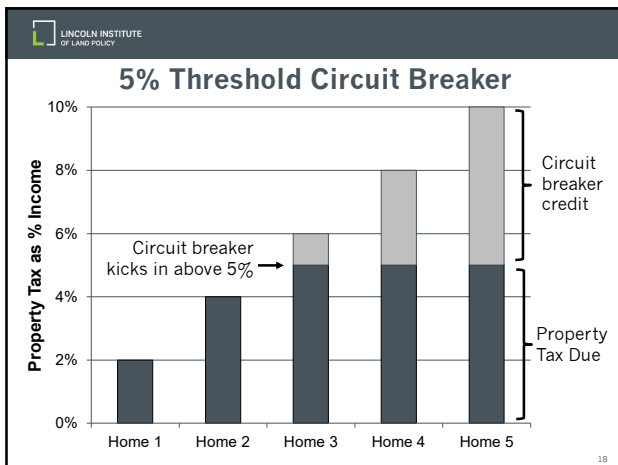
- State aid is the only way to offset **fiscal disparities** and ensure all local governments provide **adequate services**
- Increasing state aid is NOT an efficient way to provide property tax relief
 - \$10m state aid increase
 - \$6m property tax decrease (\$4m local spending increase)
 - \$3m property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

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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

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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


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

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

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

Relief Option	Cost Effectiveness	Who Gets Tax Relief *
Homestead Exemptions & Credits	Low	All homeowners
Income-Based Homestead Credits	Moderate	All lower income homeowners
Circuit Breakers	High	Only households with heavy tax burdens
Deferrals	Very High	Delay but don't cut property taxes

Best approach pairs a circuit breaker with a deferral

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

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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)

\$400

Median Property Tax Bill = **\$2,578**

Monthly Bill = \$215

Source: Federal Reserve *Report on the Economic Well-Being of U.S. Households in 2019*; 2019 American Community Survey (U.S. Census Bureau).

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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)
- 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

Source: Federal Reserve *Report on the Economic Well-Being of U.S. Households in 2019*;

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5. Avoid Tax Limits, Especially Assessment Limits

3 Types of Tax Limits

Rate Limit	Cap tax rate for specific local governments	AR : Tax rate for municipalities can't exceed 5 mills
Assessment Limit	Cap annual growth in assessed value of individual properties	CA : Assessed value can't grow more than 2% per year
Levy Limit	Cap annual growth in overall property tax revenues in a jurisdiction	MA : Tax revenue can't grow more than 2.5% per year

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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

Median Effective Tax
by Neighborhood for Residential
Properties with 1-3 Units (2017)

Source: "Residential Property Taxation in New York City." Regional Plan Association (2018).

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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

Effective Property Tax Rates for
5 Blocks in Los Angeles (2015)

Effective Property Tax Rate	Households (Count)
0.8% +	20
0.6 to 0.8%	23
0.4 to 0.6%	20
0.2 to 0.4%	7
Under 0.2%	7

Source: Analysis of data from "Common Claims about Proposition 13," CA Legislative Analyst's Office (2016, 8).

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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
 - **Lock-in effect discourages mobility**

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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

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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

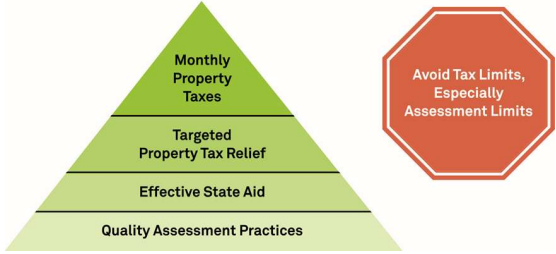
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Recap

- **Keys to an Equitable and Efficient Property Tax System**



Monthly
Property
Taxes

Targeted
Property Tax Relief

Effective State Aid

Quality Assessment Practices

Avoid Tax Limits,
Especially
Assessment Limits

- Learn More: *Property Tax Relief for Homeowners* (2021)
www.lincolninst.edu/publications

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