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In 1927, Oliver Wendell Holmes said “taxes are what we pay for a civilized society.”

Eighty years later, one form of tax—the property tax—is being scrutinized by state and local governments, due in part to the meteoric rise of property values in recent years.

A flood of legislation is being considered across the country to address concerns about property tax increases, how tax revenues are calculated and distributed, and local governments’ reliance on those revenues.

Property taxes have often been the target of public discontent. In fact, the public considers the property tax to be the least fair among all state and local taxes, according to a recent poll conducted by the Tax Foundation. Gerald Prante, economist at the foundation and author of a new special report, postulates this is because “... taxpayers are more acutely aware of what property taxes cost them than they are of income, payroll, corporate or sales taxes. Sometimes, property taxes are paid into an escrow account without much personal attention from the taxpayer, but often property taxes involve the actual writing of a huge check to the local government.”

This awareness means that property owners have become increasingly vocal about their rising tax burdens. In many states, grass roots organizations have sprung up to influence the property tax discourse. For example, Virginians Over-Taxed on Residences (VOTOR) has a single goal: to limit property value assessment increases and property tax rates. A New Jersey group called Citizens for Property Tax Reform, reportedly had 500,000 participants in 2004.

Dissatisfaction with property taxes is not a new phenomenon. Throughout the 1970s, states came under pressure from constituents to implement property tax limits, culminating in the one of the most well-known of such

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Property Taxes Under Scrutiny

By Jennifer Burnett

measures—California’s Proposition 13. Passed in 1978, Proposition 13 limited the property value assessment to the current value plus 2 percent per year. Many states followed California’s lead and subsequently passed similar measures.

In 1980, Massachusetts voters went even further and passed Proposition 2½, which placed constraints on the amount of property taxes a city or town could levy, established two types of voter-approved increases in taxing authority, and allowed voters to mandate a reduction in taxing authority.

In jurisdictions across the nation, property values—in particular, residential real estate prices—have skyrocketed in recent years and a renewed interest in limiting or reforming property taxes has followed. Figure 1 illustrates trends over the last 20 years in the S&P/Case-Shiller U.S. National Home Price Index.

While the index was relatively flat throughout the 1990s, steep increases can be seen beginning around 2000.

There are, of course, variations across regions and even within states when it comes to how much residents have to pay. Of the top 10 counties (with populations greater than 65,000) that paid the highest median real estate taxes in 2005, six were in New Jersey and four were in New York. The residents of Westchester County, N.Y., made the highest median payment out of all these counties—\$7,337. See table on page 18 for state property tax rankings.

Increased property taxes generally translates into larger revenue streams for local and state governments, but it can also result in huge tax burdens for property owners. The rise in property value and therefore property taxes has outpaced income growth, leaving property owners to pay out a growing proportion of their income to the government. From 2000 to 2004, property tax collections increased 27.7 percent, while over the same period personal income grew at little more than half that rate—15.9 percent.

This has led many states to consider revisions to existing property tax guidelines, often in order to provide relief for homeowners from steep tax bills or to limit how much those bills can grow in the future.

“Almost every state is looking at some form of property tax cap,” said Myron Orfield, a property tax expert and law professor at the University of Minnesota in Minneapolis.

New York, with some of the heaviest property tax burdens in the nation, is considering a tax relief package aimed at middle class homeowners proposed by Gov. Elliot Spitzer.

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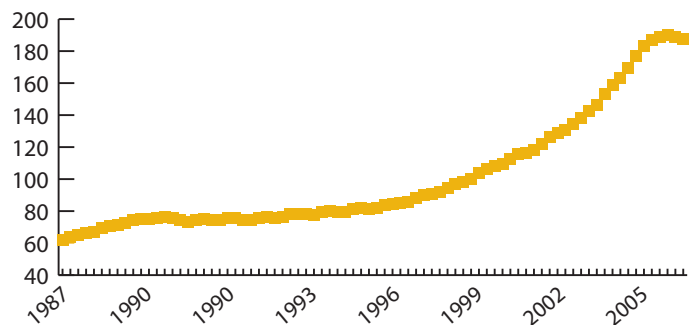
—Myron Orfield, Property tax expert

“I believe those middle class New Yorkers, who bear the brunt of soaring property taxes and have the least ability to pay them, should be top priority,” he has said.

Under the governor’s proposal, the state would provide \$6 billion in additional property tax relief over the next three years, with the majority of savings going to those homeowners with incomes at or below \$60,000 (\$80,000 in the New York City metropolitan area).

Alongside his relief package, Spitzer wants to shift some costs away from local governments—thereby reducing the property tax liabilities of homeowners—by increasing state aid to schools. Connecticut Gov. M. Jodi Rell is offering up a proposal with a similar intent. Though property taxes constitute a small portion of state tax revenue (usually less than 2 percent), local governments often derive a huge part of their budgets from these taxes and a large chunk of those revenues go to funding local schools. The Tax Foundation calculates that public schools are

Figure 1: S&P/Case-Shiller U.S. National Home Price Index, 1Q 1987—4Q 2006



Note: The S&P/Case-Shiller® U.S. National Home Price Index is a composite of single-family home price indices for the nine U.S. Census divisions and is calculated quarterly.

State Rankings for Property Taxes

Median Property Taxes Paid and Property Taxes as a Percentage of Income, 2005

Rank	State	Property Tax Paid on Homes	Rank	State	Tax as % of Income
1	NJ	\$5,352	1	NJ	6.75%
2	NH	\$3,920	2	NH	5.86%
3	CT	\$3,865	3	VT	5.07%
4	NY	\$3,076	4	CT	5.00%
5	RI	\$3,071	5	WI	4.79%
6	MA	\$2,974	6	IL	4.68%
7	IL	\$2,904	7	NY	4.59%
8	VT	\$2,835	8	RI	4.45%
9	WI	\$2,777	9	MA	3.95%
10	CA	\$2,278	10	PA	3.57%
11	WA	\$2,250	11	WA	3.55%
12	AK	\$2,241	12	TX	3.53%
13	MD	\$2,159	13	NE	3.48%
14	PA	\$1,937	14	OR	3.44%
15	TX	\$1,926	15	ME	3.37%
16	OR	\$1,910	16	MI	3.29%
17	NE	\$1,889	17	CA	3.17%
18	MI	\$1,846	18	AK	3.13%
19	ME	\$1,742	19	FL	2.95%
20	MN	\$1,618	20	OH	2.93%
21	OH	\$1,598	21	MD	2.70%
22	FL	\$1,495	22	SD	2.79%
23	NV	\$1,445	23	MT	2.79%
24	VA	\$1,418	24	ND	2.64%
25	SD	\$1,404	25	MN	2.60%
26	IA	\$1,355	26	IA	2.59%
27	KS	\$1,337	27	KS	2.49%
28	ND	\$1,326	28	ID	2.47%
29	MT	\$1,309	29	NV	2.37%
30	CO	\$1,297	30	VA	2.13%
31	ID	\$1,226	31	AZ	2.10%
32	AZ	\$1,133	32	CO	2.03%
33	UT	\$1,130	33	IN	2.02%
34	IN	\$1,079	34	UT	1.96%
35	GA	\$1,050	35	MO	1.96%
36	MO	\$1,012	36	NC	1.91%
37	NC	\$966	37	GA	1.82%
38	HI	\$924	38	TN	1.63%
39	DE	\$806	39	NM	1.56%
40	TN	\$794	40	KY	1.49%
41	WV	\$737	41	WY	1.40%
42	NM	\$707	42	OK	1.37%
43	KY	\$693	43	SC	1.33%
44	SC	\$642	44	HI	1.28%
45	OK	\$635	45	DE	1.27%
46	AK	\$459	46	AK	1.05%
47	MS	\$416	47	MS	1.02%
48	WV	\$389	48	WV	0.97%
49	AL	\$302	49	AL	0.66%
50	LA	\$175	50	LA	0.37%

Source: Tax Foundation Calculations of U.S. Census Bureau data.
Note: All taxes are for owner-occupied housing.



the greatest beneficiary of property taxes, receiving nearly 50 percent of all collected property taxes.

Given the aging of America, some legislative measures are aimed specifically at lessening the tax burden for older Americans on a fixed income. In 2006, for example, Nebraska Gov. Dave Heineman signed into law a revenue package that, according to AARP, “significantly expands tax relief to limited-income older and disabled homeowners ... and lessens the property tax burden on low-income seniors who might otherwise be forced out of their homes due to high taxes.” As of March 2006, 25 states provided special property-tax exemptions or credits for the elderly.

Another form of property tax reform known as property tax swaps—trading property taxes for an increase in another type of tax—has also made headlines over the last year. New Jersey, Idaho and South Carolina all chose to lower property taxes last year, and made up the lost revenue by increasing the sales tax. Texas, where property taxes rose almost 84 percent from 1996 to 2004, dropped property tax rates and picked up higher taxes on cigarettes and certain business activities. Proposals are in place in Florida, Indiana and Illinois to follow suit this year.

As previously discussed, increased property taxes were catalysts for many of these proposals. But, while home prices have been on the upswing the past few years, that trend has reversed in more recent months. (See Figure 1) According to the National Association of Realtors, the median price of an existing home sold in January 2007 was down 3.1 percent from last January—the sixth straight month prices have posted a year-over-year drop. Price drops could bring a reprieve from increasing property tax bills, but could also impact revenue streams for local governments and place pressure on policymakers to reconfigure newly conceived tax relief measures.

In the years to come, property taxes will likely continue to be a target of debate for property owners as well as an issue of concern for policymakers. As the real estate market cools off, the call for property tax reform may also cool off—for now.

—Jennifer Burnett is a research analyst at The Council of State Governments.