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Property Tax Relief for Homeowners

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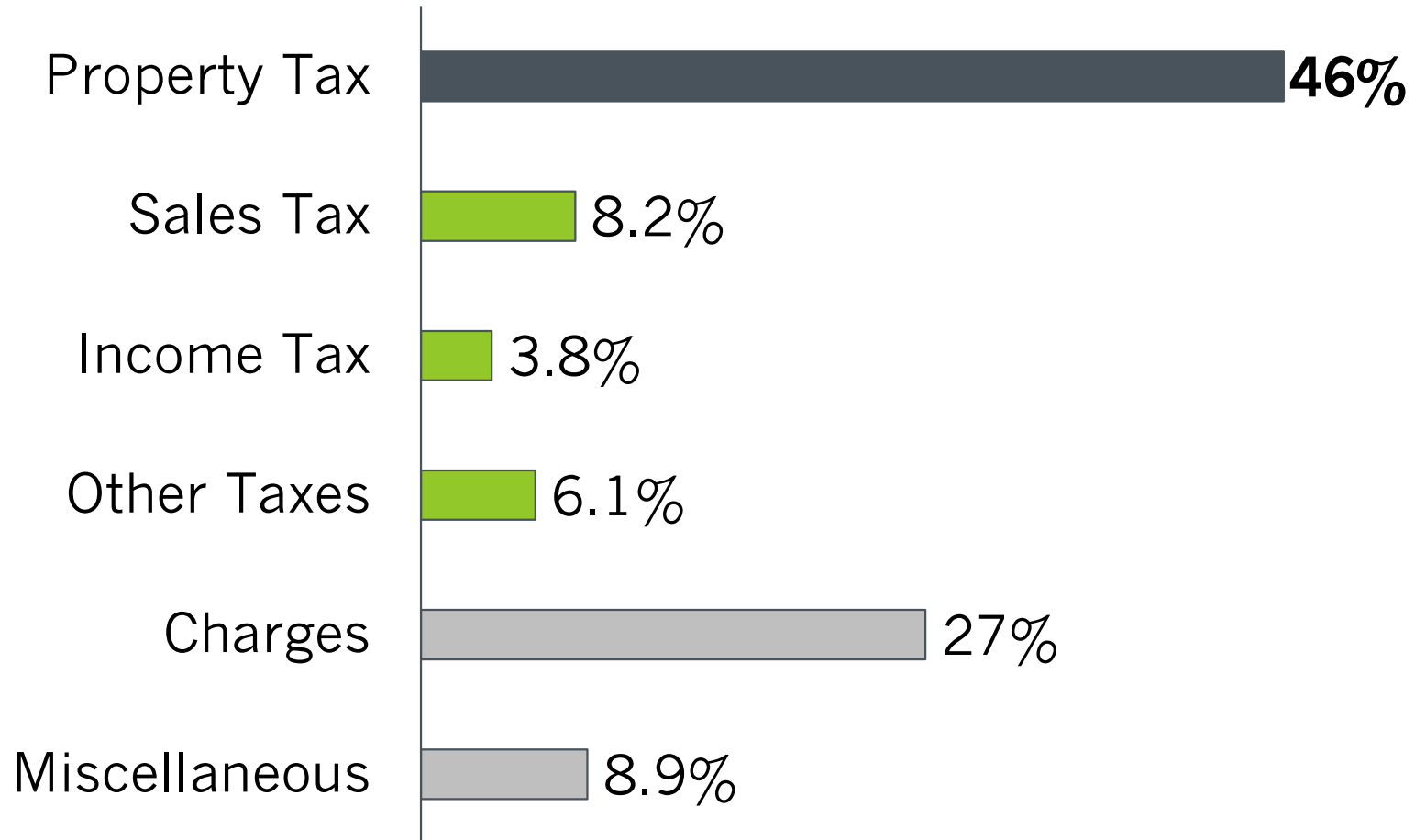
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January 20, 2022: Revenue Interim Committee, Montana State Legislature

Revenue Raised by Local Government (2019)



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



Property Tax Relief for Homeowners



ADAM H. LANGLEY AND JOAN YOUNGMAN

POLICY FOCUS REPORT LINCOLN INSTITUTE OF LAND POLICY

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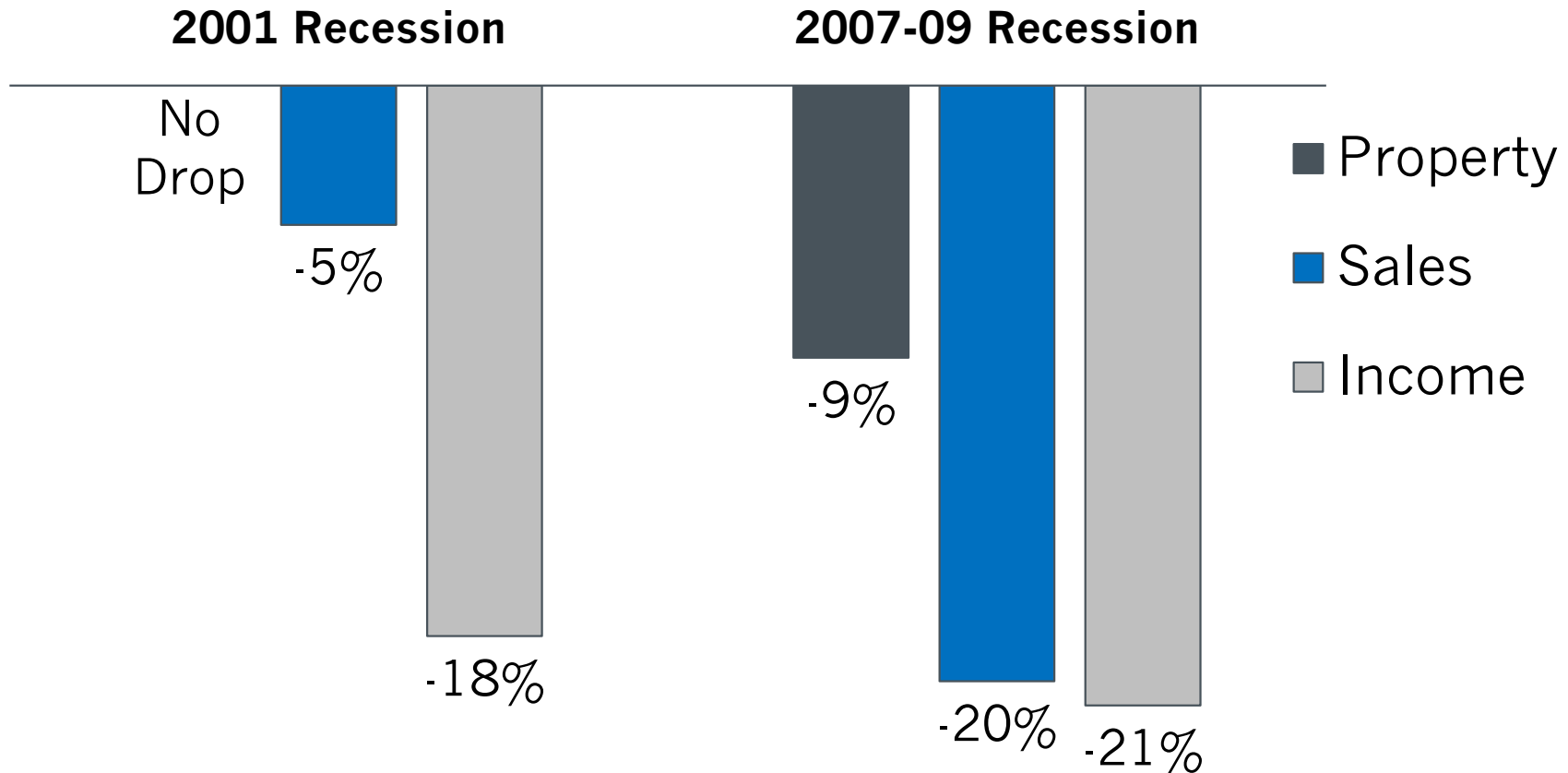
Outline

- Strengths and Challenges
- Recommendations

Strengths of the Property Tax

- **A stable revenue source**

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



Source: *Property Tax Relief for Homeowners*. Lincoln Institute of Land Policy (2021).

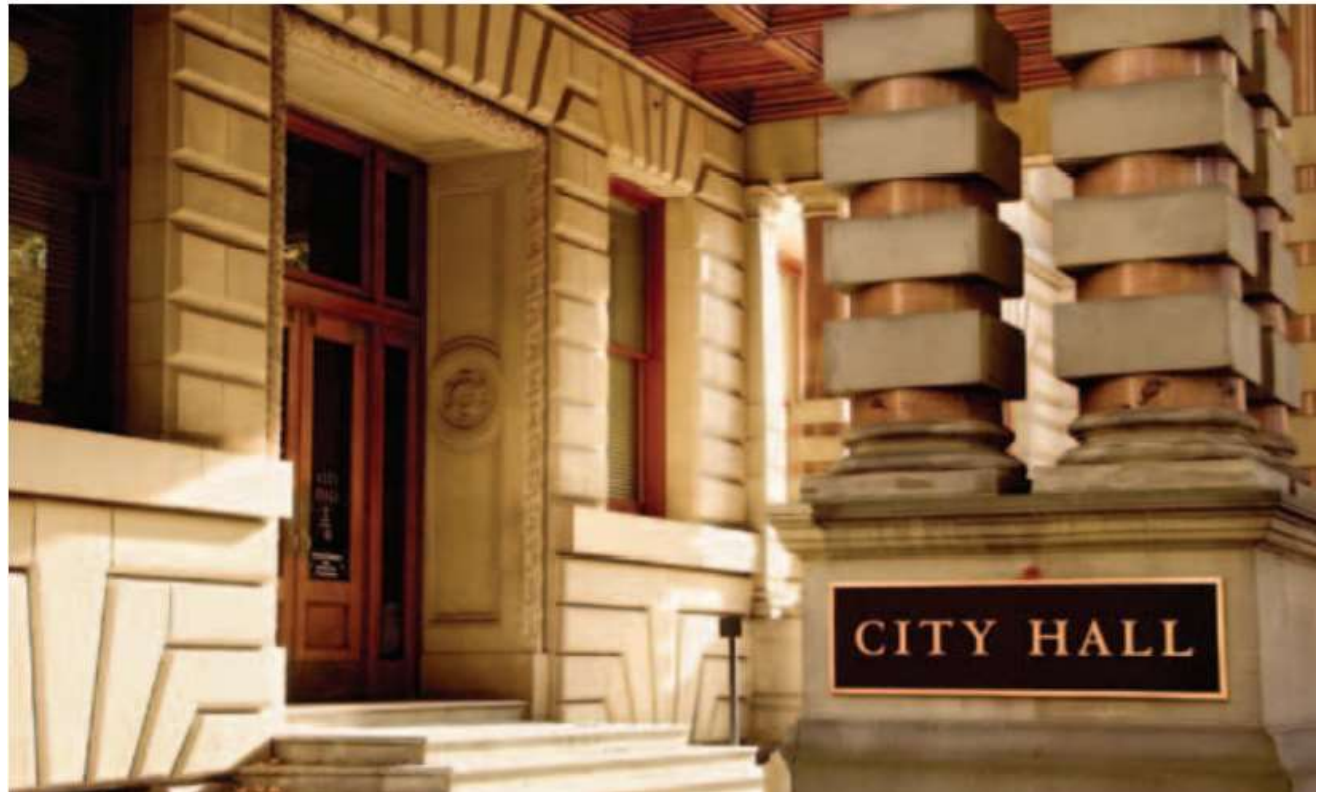
Strengths of the Property Tax

- A stable revenue source
- **An immobile tax base**



Strengths of the Property Tax

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



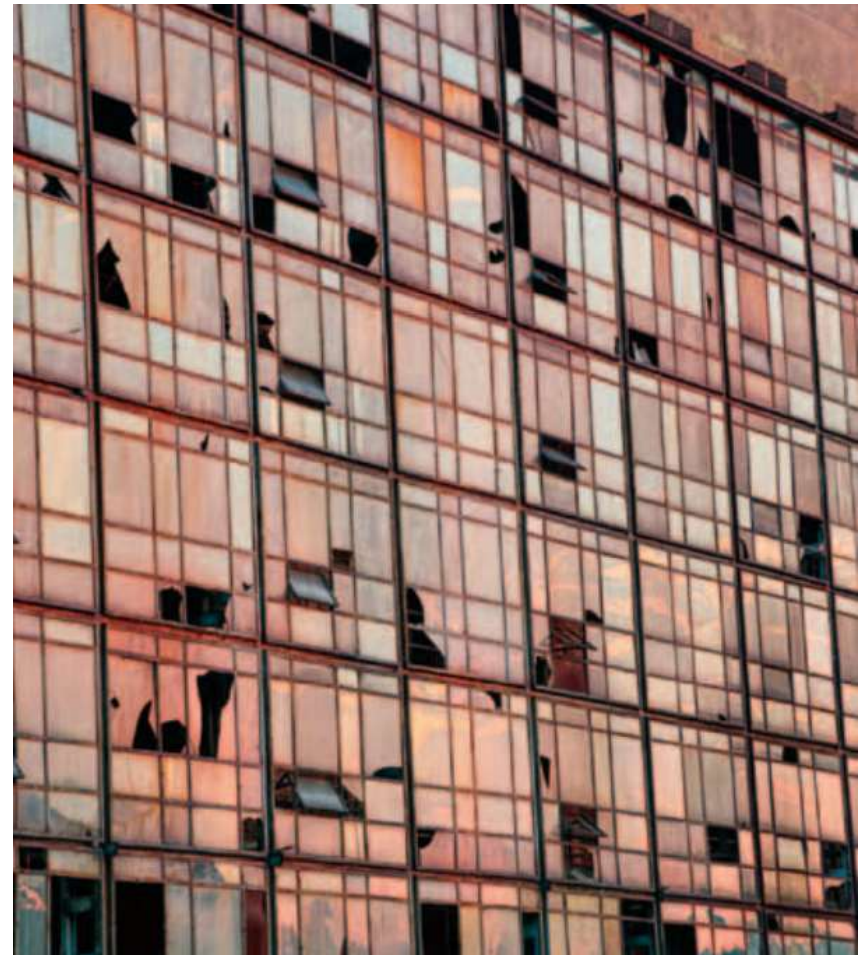
Strengths of the Property Tax

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



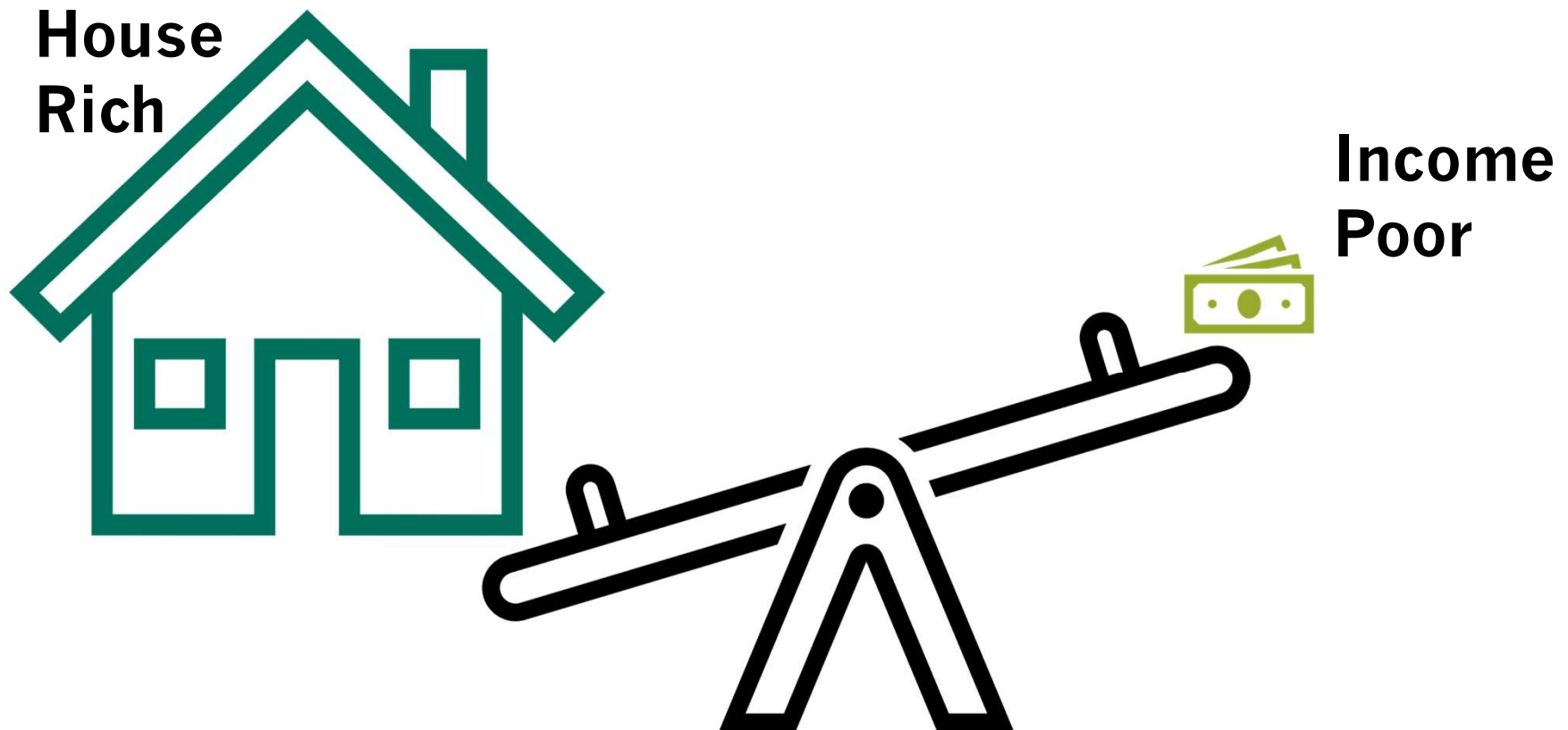
Challenges for the Property Tax

- **Fiscal disparities**



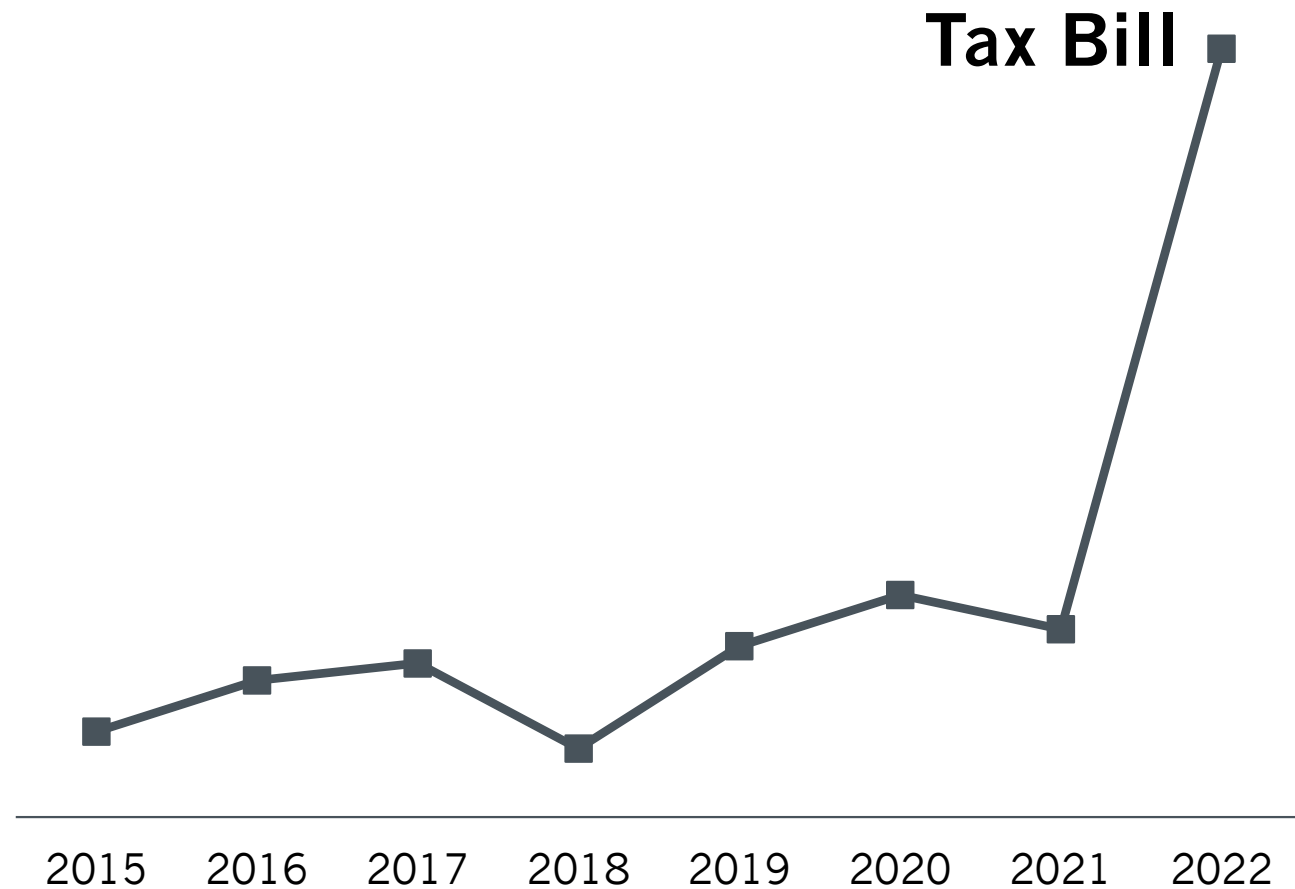
Challenges for the Property Tax

- Fiscal disparities
- **Liquidity constraints**



Challenges for the Property Tax

- Fiscal disparities
- Liquidity constraints
- **Volatility**



Challenges for the Property Tax

- Fiscal disparities
- Liquidity constraints
- Volatility
- **Inaccurate assessments**

Assessed Value???



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

- 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

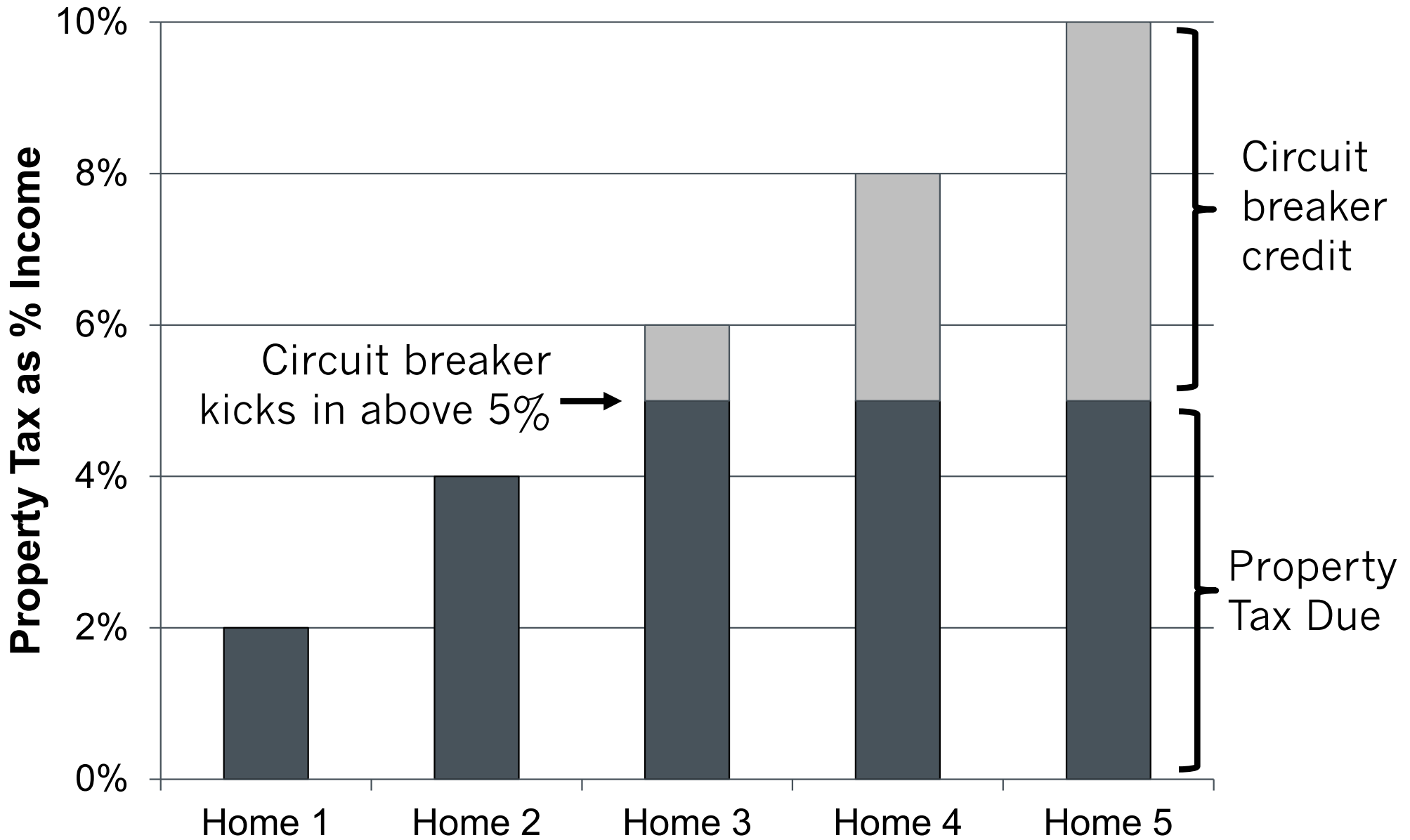
- State aid is the only way to offset **fiscal disparities** and ensure all local governments provide **adequate services**
- Increasing state aid is NOT an efficient way to provide property tax relief
 - State-funded property tax relief is better approach

3. Targeted Property Tax Relief

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



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
- Some states allow younger homeowners to defer...
 - Tax increases above a certain level, or
 - Taxes that exceed certain percentage of income

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

Relief Option	Example	Notes
Homestead Exemption	First \$20,000 exempted <i>(or 20% exempted)</i>	Makes property tax distribution fairer <i>(Fixed dollar only)</i>
Homestead Credit	\$200 credit <i>(or 20% credit)</i>	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

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.

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**

\$400



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).

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*;

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 50 mills
Assessment Limit	Cap annual growth in assessed value of <u>individual</u> properties	CA: Assessed value can't grow more than 2% per year
Levy Limit	Cap annual growth in <u>overall</u> property tax revenues in a jurisdiction	MA: Tax revenue can't grow more than 2.5% per year

5. Avoid Tax Limits, Especially Assessment Limits

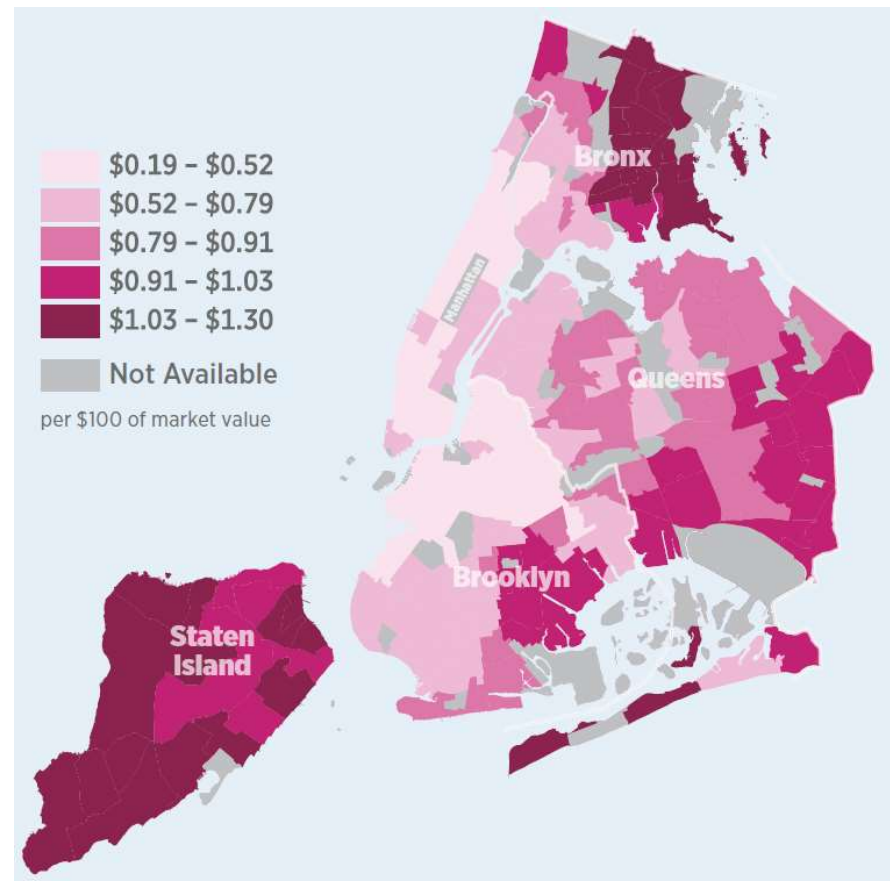
- **Effects of Tax Limits**

- Reduced flexibility and local autonomy
- Change revenue mix to less reliable sources
- Restrictive tax limits erode quality of local services

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).

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).

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

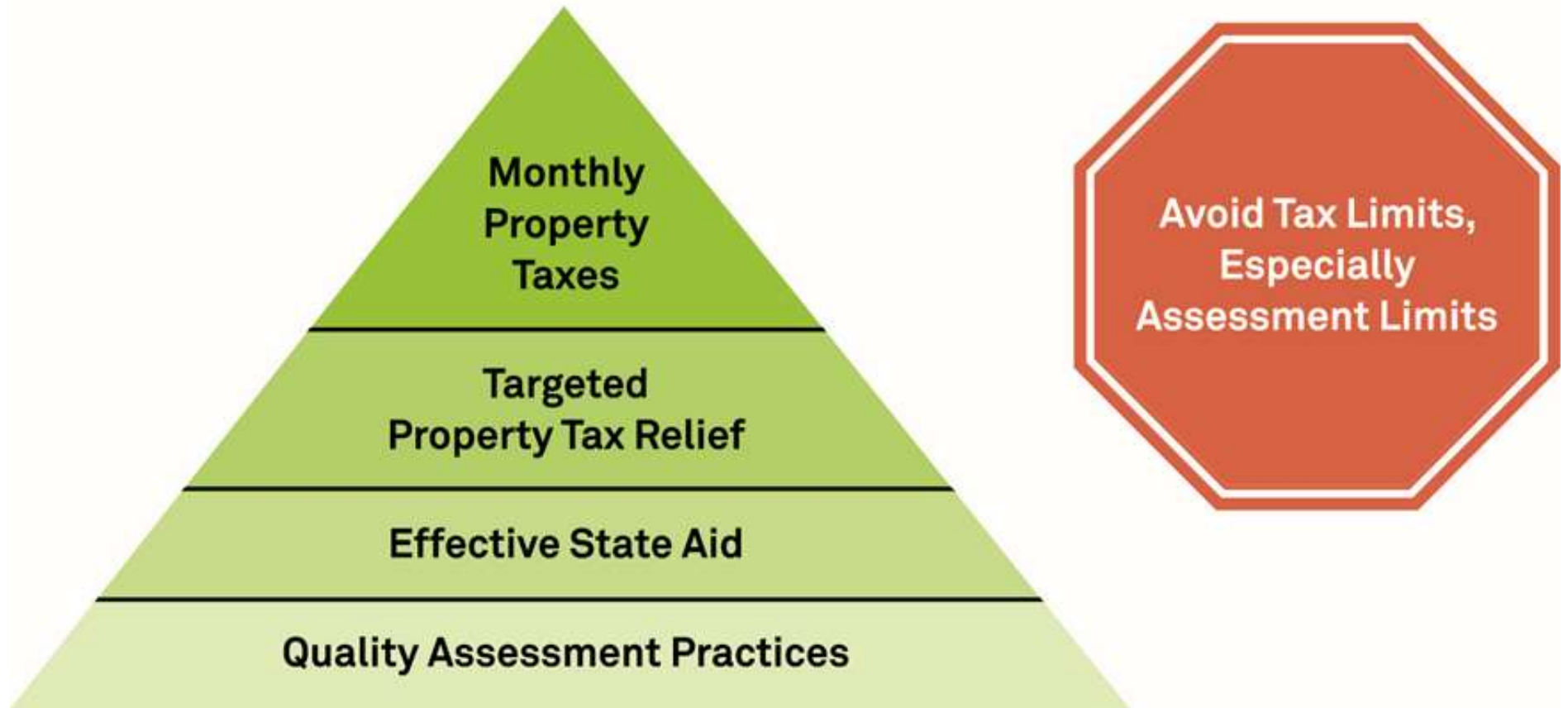
- **Truth in Taxation:** Alternative approach
 - Increases in property tax **revenues** due to higher values, are subject to same procedures as required for an increase in property tax **rate** under state law
 - Public hearings, public votes, mailings, etc.
 - Otherwise, tax rate automatically adjusted 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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