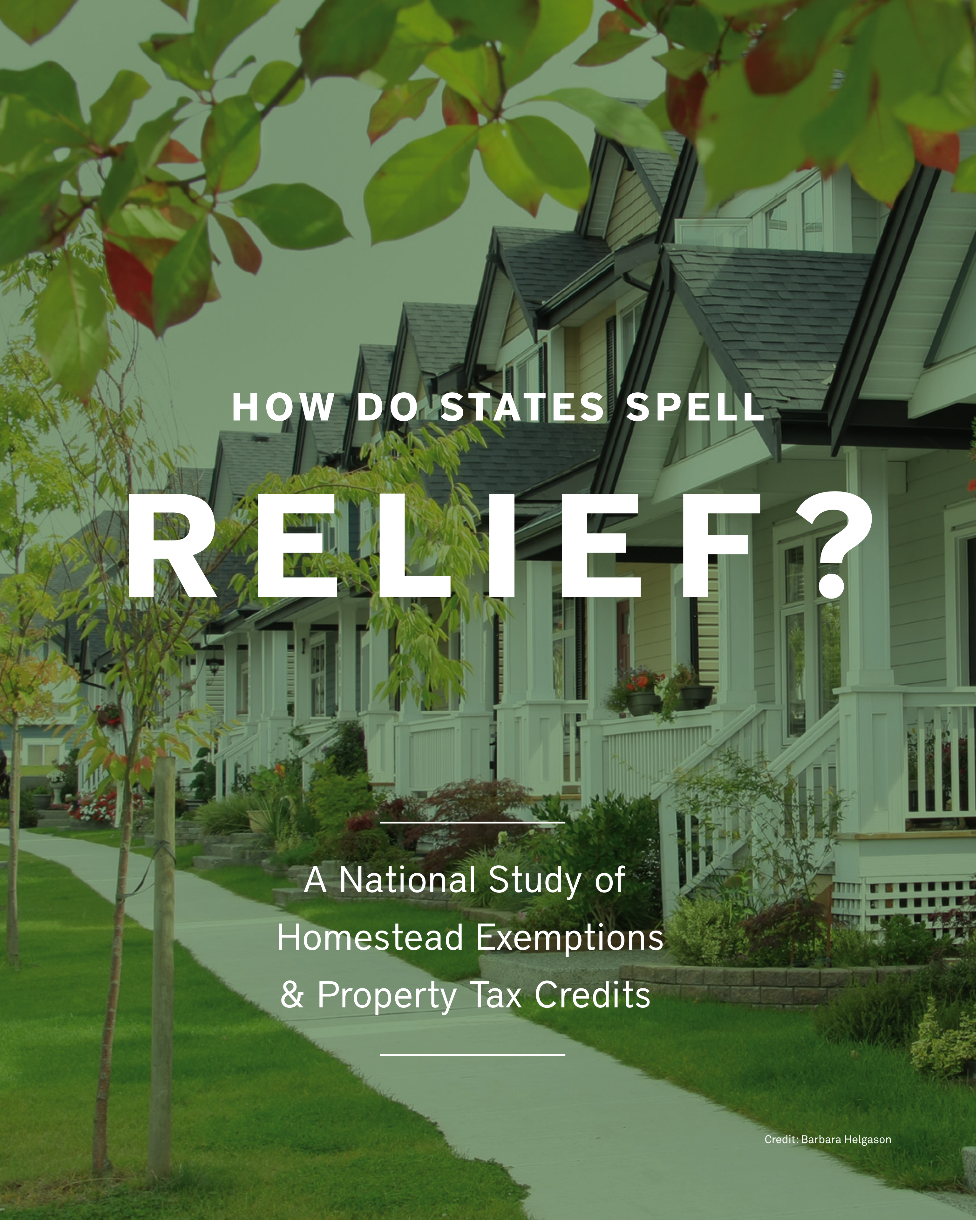


HOW DO STATES SPELL RELIEF?

A National Study of Homestead Exemptions & Property Tax Credits

Credit: Barbara Helgason

By Adam H. Langley

THE PROPERTY TAX IS THE MOST WIDELY UNPOPULAR TAX IN AMERICA. States have responded to this public opposition by enacting a range of tax relief policies, especially for homeowners (Cabral and Hoxby 2012). Among the most commonly adopted programs are homestead exemptions and property tax credits; all but three states have at least one of these programs. But despite their broad use and their potentially large impact on the distribution of property tax burdens, there has been remarkably little data available on the tax savings generated by property tax exemptions and credits.

Two new resources, available through the Lincoln Institute's Significant Features of the Property Tax subcenter, begin to fill this need. These tables provide information for each state on the share of homeowners eligible for these programs and the level of tax savings they receive, as well as an analysis of how eligibility and benefits vary across the income distribution (see box 1, p. 26). This article draws on these resources to provide the first national study of property tax exemptions and credits with estimates of tax savings from these programs. With this information, policy makers have a critical tool to evaluate and improve the effectiveness of their property tax relief programs.

How Property Tax Exemptions and Credits Work

Property tax relief programs come in a variety of forms. Homestead exemptions reduce the amount of *property value* subject to taxation, either by a fixed dollar amount or by a percentage of home value. Property tax credits, in contrast, directly reduce the homeowner's *tax bill* by a fixed dollar amount or certain percentage.

As table 1 illustrates, programs designed to provide identical benefits to owners of $200,000 homes have widely different impacts on homeowners with higher- and lower-valued properties.

TABLE 1
PROPERTY TAX RELIEF UNDER SAMPLE SCENARIOS (TAX RATE = 1%)

	$100,000 HOME	$200,000 HOME	$400,000 HOME
TAX ($) BEFORE EXEMPTION OR CREDIT	1,000	2,000	4,000
FLAT DOLLAR EXEMPTION (EX: $20,000)			
TAXABLE VALUE ($) AFTER EXEMPTION	80,000	180,000	380,000
TAX ($) AFTER EXEMPTION	800	1,800	3,800
DOLLAR SAVINGS ($)	200	200	200
PERCENT SAVINGS (%)	20	10	5
PERCENTAGE EXEMPTION (EX: 10%)			
TAXABLE VALUE ($) AFTER EXEMPTION	90,000	180,000	360,000
TAX ($) AFTER EXEMPTION	900	1,800	3,600
DOLLAR SAVINGS ($)	100	200	400
PERCENT SAVINGS (%)	10	10	10
FLAT DOLLAR CREDIT (EX: $200)			
TAX ($) AFTER CREDIT	800	1,800	3,800
DOLLAR SAVINGS ($)	200	200	200
PERCENT SAVINGS (%)	20	10	5
PERCENTAGE CREDIT (EX: 10%)			
TAX ($) AFTER CREDIT	900	1,800	3,600
DOLLAR SAVINGS ($)	100	200	400
PERCENT SAVINGS (%)	10	10	10

Source: Author's example

Given a 1% tax rate, a $20,000 **flat dollar exemption** reduces property taxes for each homeowner by $200 ($20,000 x 1%). This program has a progressive impact on the property tax distribution because lower-income households tend to have less valuable homes, and the exemption represents a larger share of their home values.

BOX 1

STATE-BY-STATE DETAILS ON PROPERTY TAX EXEMPTIONS AND CREDITS

The Significant Features of the Property Tax subcenter provides three key resources with information on property tax exemptions and credits in all 50 states; it is accessible at *www.lincolninst.edu/subcenters/significant-features-property-tax*.

TAX SAVINGS FROM PROPERTY TAX EXEMPTIONS AND CREDITS

This online Excel file includes estimates of tax savings from programs in individual states (see abbreviated example below), plus overview tables that make it easy to compare across states. For each program, the file provides estimates of the number of eligible homeowners and the median benefit, as well as a distributional analysis by income quintile. This is the first time that detailed data are available for most of these programs.

SUMMARY TABLE ON EXEMPTIONS AND CREDITS

This online Excel file includes a set of tables for 167 programs displaying the value of exemptions expressed in terms of market value; criteria related to age, disability, income, and veteran status; the type of taxes affected (i.e., school or county taxes); whether the tax loss is borne by state or local governments; local options; and more. The summary table makes it easy to conduct quantitative analysis of these programs or make quick state-by-state comparisons. The information in these tables was used to generate the tax savings estimates.

RESIDENTIAL PROPERTY TAX RELIEF

This section of the Significant Features website includes detailed descriptions of property tax exemptions and credits, which were used to create the online Summary Table on Exemptions and Credits. It also describes other types of property tax relief, such as circuit breakers and tax deferral programs.

Notes: Total tax savings from the Senior and Disabled Property Tax Homestead Exemption ($392M) is less than the combined total of the programs for Seniors ($378M) and the Disabled ($22M), because homeowners who are 65+ and disabled cannot claim the exemption twice. The online Summary Table shows that the Senior and Disabled Exemption is a $25,000 exemption for homeowners who are 65+ or disabled; the two Rollback programs are percentage exemptions of 2.5% and 10% for all owner-occupied residences. Source: Lincoln Institute of Land Policy (2015).

OVERVIEW OF PROPERTY TAX EXEMPTION AND CREDIT PROGRAMS IN OHIO (2012)

PROGRAM	TOTAL TAX SAVINGS ($ MILLIONS)	OWNERS ELIGIBLE (%)	HOUSEHOLDS ELIGIBLE (%)	MEDIAN BENEFIT	
				SAVINGS ($)	SAVINGS (%)
SENIOR & DISABLED PROPERTY TAX HOMESTEAD EXEMPTION	392.3	29.3	19.9	447	20.8
SENIOR	378.3	28.2	19.1	447	20.8
DISABLED	22.1	1.7	1.2	447	31.3
2.5% ROLLBACK	221.9	100	67.8	58	2.5
10% ROLLBACK	887.5	100	67.8	232	10.0
ALL PROGRAMS	**1,499.8**	**100**	**67.8**	**402**	**12.5**

DISTRIBUTIONAL ANALYSIS OF PROPERTY TAX EXEMPTION AND CREDIT PROGRAMS IN OHIO (2012)

% REDUCTION IN TAX BILL FOR ELIGIBLE HOUSEHOLDS (MEDIAN)

INCOME QUINTILE	LOWEST 20%	2ND	MIDDLE 20%	4TH	HIGHEST 20%
SENIOR & DISABLED PROPERTY TAX HOMESTEAD EXEMPTION	29.4	25.0	20.8	17.9	13.2
SENIOR	27.8	25.0	20.8	17.2	12.8
DISABLED	50.0	31.3	25.0	22.7	16.7
2.5% ROLLBACK	2.5	2.5	2.5	2.5	2.5
10% ROLLBACK	10.0	10.0	10.0	10.0	10.0
ALL PROGRAMS	**22.5**	**12.5**	**12.5**	**12.5**	**12.5**
UPPER LIMIT TO INCOME QUINTILE IN STATE	$17,743	$34,435	$55,000	$88,112	N/A

In this case, the $20,000 exemption reduces property taxes by 20% on the $100,000 home, 10% on the $200,000 home, and 5% on the $400,000 home.

A **percentage exemption**, in contrast, provides the same percentage reduction in taxes for all three homeowners—in this example, 10%. In dollar terms, however, percentage exemptions favor owners with higher-valued homes: a 10% across-the-board reduction lowers property taxes by only $100 on the $100,000 home but $400 on the $400,000 home.

In the case of **flat dollar credits**, homeowners with lower-valued homes usually receive the largest tax cuts in percentage terms. In contrast, the **percentage tax credit** again provides the owner of the $400,000 home the largest tax cut in dollar terms.

An important feature of property tax exemptions and percentage credits is that the dollar reduction (but not the percentage reduction) in taxes increases with tax rates. For instance, if the homes in table 1 were subject to a 2% tax rate, the dollar savings to their owners would double under the $20,000 exemption, 10% exemption, and 10% credit. While the dollar savings from flat dollar credits do not vary with tax rates, the percentage savings to homeowners decrease as tax rates rise.

Critical Features of Exemptions and Credits

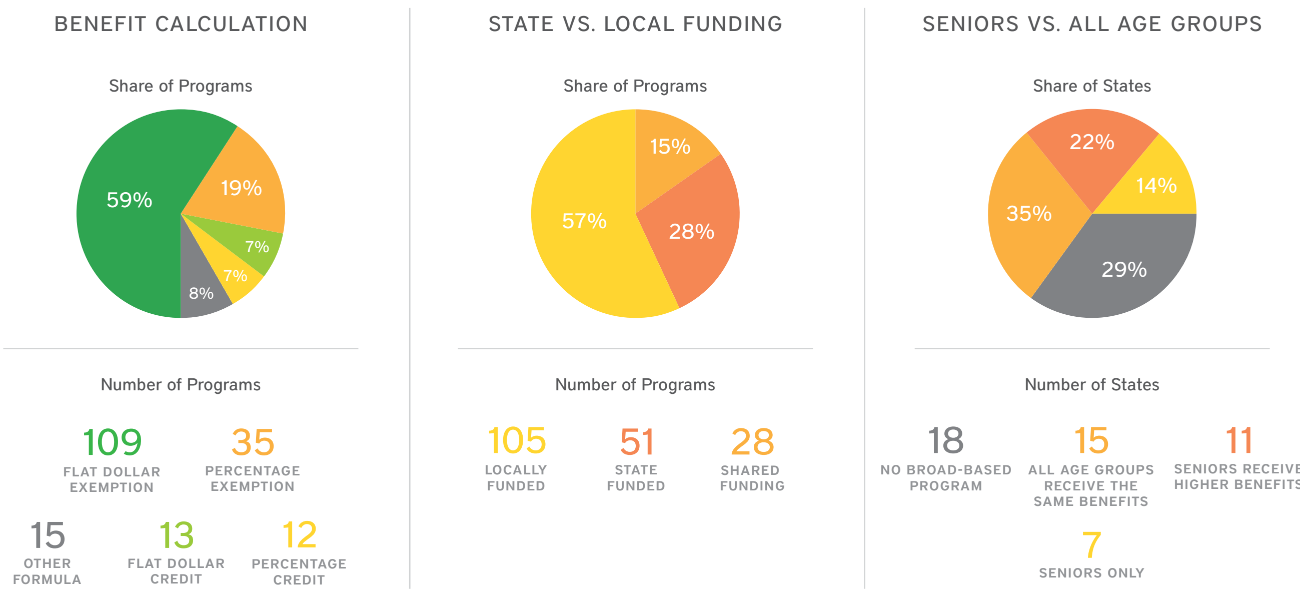
The design of homestead exemption and property tax credit programs varies significantly across the 50 states. Figure 1 (p. 28) summarizes the number and share of state programs with the following key characteristics.

BENEFIT CALCULATION Perhaps the most important feature of property tax relief programs is how benefits are calculated. In 2012, 59% of state programs provided flat dollar exemptions, 19% provided percentage exemptions, and the final fifth used property tax credits or other more complicated formulas to determine the amount of tax relief for each homeowner.

While the programs work in similar ways, their effects differ dramatically. As the examples in table 1 show, flat dollar exemptions and credits make the property tax distribution more progressive, while percentage exemptions and credits do not. As a result, to provide a certain level of tax relief for the median homeowner, percentage exemptions are more expensive than other programs because they result in larger property tax cuts for owners of higher-valued homes. Instead of changing the distribution of property taxes among homeowners, percentage exemptions are

FIGURE 1

KEY FEATURES OF STATE PROPERTY TAX EXEMPTION AND CREDIT PROGRAMS (2012)



Source: Author's analysis of data from Lincoln Institute of Land Policy (2014).

primarily a way to shift the tax burden away from homeowners as a group to businesses, renters, and owners of second homes.

STATE VS. LOCAL FUNDING The ultimate impact of exemptions and credits on property tax bills depends on how the programs are funded. Figure 1 shows that in 2012 only 28% of these programs included full state reimbursement to cover local revenue losses, while 57% had local governments bear revenue losses on their own. For 15% of programs, state and local governments shared the revenue loss in some way. (Broad-based programs for all homeowners or all seniors are more likely to receive state funding than programs for smaller groups such as veterans or the disabled. In 2012, 43% of tax relief programs for all homeowners or seniors were state-funded, 48% were locally-funded, and the rest split the revenue loss [Lincoln Institute of Land Policy 2014].)

The primary argument in favor of state funding of property tax exemptions and credits is that it can help mitigate disparities in property wealth across localities. Poorer communities and those without a significant business tax base typically have higher property tax rates, and these communities receive more funds per homeowner under state-funded programs. Without this assistance, communities with higher tax rates will experience larger revenue losses from tax relief programs unless they increase tax rates even further.

SENIORS VS. ALL AGE GROUPS A number of states provide property tax relief for seniors. In 2012, more than a third favored seniors in some way: seven had statewide programs solely for this group, while 11 also covered younger homeowners but provided higher benefits for older homeowners. Other states provided either the same level of benefits for homeowners of all ages (15 states) or did not have broad-based programs (18 states).

Common arguments for targeting senior homeowners is that property taxes account for a larger share of their incomes, and local governments spend less on seniors than on younger homeowners with school-aged children. While it is true that property taxes account for a larger share of income for seniors than for working-age homeowners, the two groups devote nearly identical shares of their incomes to total housing costs because seniors are far less likely to have mortgages (Bowman et al. 2009, 11). In addition, property taxes are payments for public services, not user fees (Kenyon 2007, 36). Younger households without children in public schools do not benefit from property tax relief under these programs. The preferential tax treatment of seniors may simply reflect the fact that older households are a politically powerful group that votes in high numbers.

Estimating the Benefits of Exemptions and Credits

To estimate tax savings from homestead exemptions and property tax credits, the first step was to create the online Summary Table on Exemptions and Credits, which describes the key features of each program (see box 1 for description). These data draw almost entirely from the Residential Property Tax Relief Programs section of the Lincoln Institute's Significant Features of the Property Tax database.

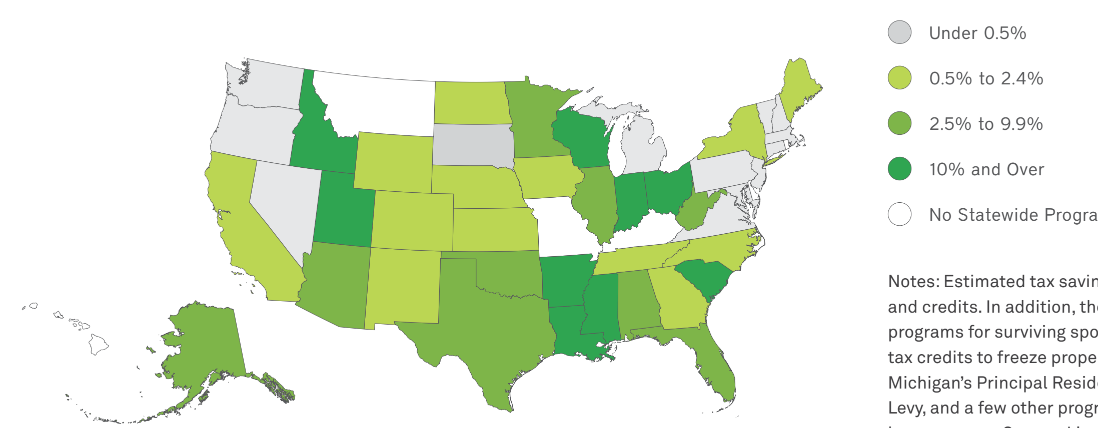
The second step was to combine this information with household-level data from the 2008–2012 American Community Survey (ACS). This nationally representative survey has data on more than 6.5 million U.S. households, including the household characteristics that determine program eligibility (age, income, disability, veteran status, etc.) and level of benefits received (home values and property tax bills). For a full explanation of the methodology used to estimate tax savings from exemptions and credits, see Langley (2015).

It is important to note that the estimates reported here are gross property tax savings. Tax relief programs often lead to higher property tax rates, especially under locally-funded programs where jurisdictions raise tax rates to offset the drop in the tax base from the exemptions. Estimates of net property tax savings would be lower in those communities, because the higher tax rates offset some of the direct tax relief provided from exemptions and credits.

Figure 2 shows that total property tax relief from homestead exemptions and property tax credits varies widely across states, but is generally small relative to total property tax revenues. In 14 of the 45 states with these programs, total savings are less than 0.5% of property tax revenues; in 27 states, the savings are less than 2.5%. At the same time, though, tax savings in nine states equal or exceed 10% of total property tax revenues. Indiana's program is particularly generous, offering all homeowners a $45,000 exemption, then an additional 35% exemption for the first $600,000 in assessed value and a 25% exemption for value above $600,000.

FIGURE 2

TOTAL TAX SAVINGS FROM PROPERTY TAX EXEMPTIONS AND CREDITS AS A PERCENT OF TOTAL PROPERTY TAX REVENUES IN STATE (2012)



Notes: Estimated tax savings exclude local option exemptions and credits. In addition, the ACS cannot be used to analyze programs for surviving spouses, programs that use property tax credits to freeze property taxes for seniors (IN, NJ, TX), Michigan's Principal Residence Exemption for Local School Levy, and a few other programs for small groups of homeowners. Source: Lincoln Institute of Land Policy (2015).

Tax Savings for Different Types of Programs

Most states have more than one property tax exemption or credit program, with different programs targeting different groups of taxpayers—typically all homeowners, seniors, veterans, or the disabled. Figure 3 presents estimates on the share of homeowners eligible for these programs, along with the level of tax savings they receive.

HOMEOWNERS Programs in 26 states are for nearly all homeowners, but usually limited to owner-occupied primary residences. In the typical state with these programs, the median homeowner receives a 12.5% cut in property taxes. On the high end, however, the median property tax cut was at least 25% in more than a quarter of states with these programs.

SENIORS Property tax relief programs in 18 states target older homeowners (typically at least age 65). These programs are much more generous than those covering all homeowners, with a median tax reduction of nearly 30% in the typical state. More than half of these programs provide a median tax cut of at least 25%, while only a sixth of them provide a median tax savings of less than 10%.

In the median state, 19.6% of homeowners are eligible for the programs, but eligibility rates vary greatly across states depending on whether there is an income ceiling. In the seven states that provide property tax relief to seniors regardless of income, 25–30% of homeowners are typically eligible. But in seven states with low income cutoffs ($10,000 to $30,000), only 5–10% of homeowners qualify. The other four states with property tax relief programs for seniors do not fit neatly into these two categories because they have higher income ceilings, strict wealth limits, or other eligibility criteria.

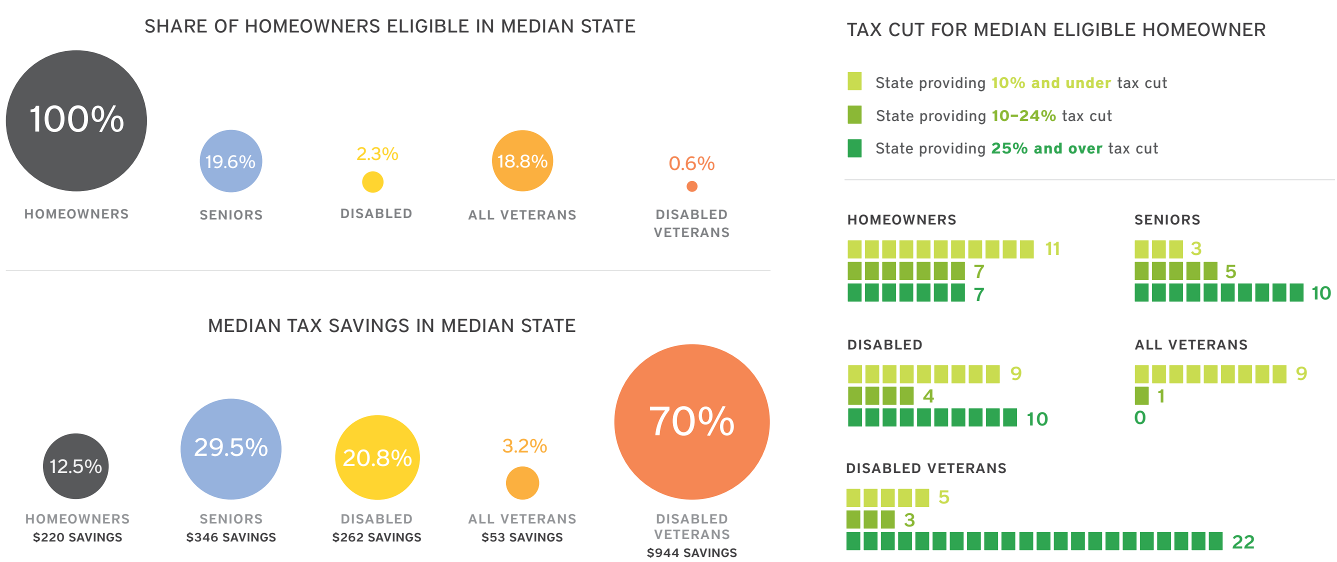
VETERANS State programs for veterans are more common than for any other group of homeowners, although eligibility is often limited to those who are disabled. Indeed, only 10 states provide property tax exemptions or credits for all veterans, even those without disabilities. In the median state with these programs, the typical beneficiary receives a property tax cut of just 3.2%.

There are 31 states that provide property tax exemptions or credits to veterans with service-connected disabilities. Because of the disability requirement, most veterans are ineligible for the programs. Indeed, only 15% of veterans qualify in the typical state. Overall, just 0.6% of homeowners are eligible for these programs in the median state.

Moreover, most of the 31 programs base eligibility and benefit levels on disability ratings from the Department of Veterans Affairs. Just seven states have programs for all partially disabled veterans, and veterans with lower disability ratings typically receive modest tax savings. On the other hand, 18 states restrict eligibility to veterans who are permanently and totally disabled. These programs benefit a very small share of veterans, but they usually provide a full 100% exemption.

DISABLED Programs in 23 states cover disabled homeowners, but really target two distinct groups: disabled homeowners and blind homeowners. In 2012, 12 states had programs for disabled homeowners, seven states had programs for the blind, and five states covered both groups. Programs for the disabled typically require beneficiaries to be permanently and totally disabled, but exact criteria vary. In the median state, 2.3% of homeowners are eligible for these programs and they receive a median property tax cut of 21%.

FIGURE 3
ELIGIBILITY AND BENEFITS FOR FIVE TYPES OF PROGRAMS (2012)



Note: The number of states with programs for homeowners and disabled veterans shown in this figure does not match the count in the text because it is not possible to use ACS data to estimate tax savings for a few states.

Source: Lincoln Institute of Land Policy (2015).

Conclusion

Homestead exemptions and property tax credits are an important part of the property tax system. These programs are used in nearly all states and can make the distribution of property taxes significantly more progressive. It is therefore critical that policymakers have good data on the property tax relief that these programs actually provide.

New research makes this information available for the first time. Using the Lincoln Institute's Significant Features of the Property Tax subcenter, policymakers can easily compare key features of property tax exemption and credit programs across states, and see estimates of eligibility and tax savings. These data make it possible to evaluate the impacts of property tax exemptions and credits in their particular states as well as find ideas for program improvements.

Adam H. Langley is Senior Research Analyst at the Lincoln Institute of Land Policy.

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