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# Property Tax Relief Options For State Governments

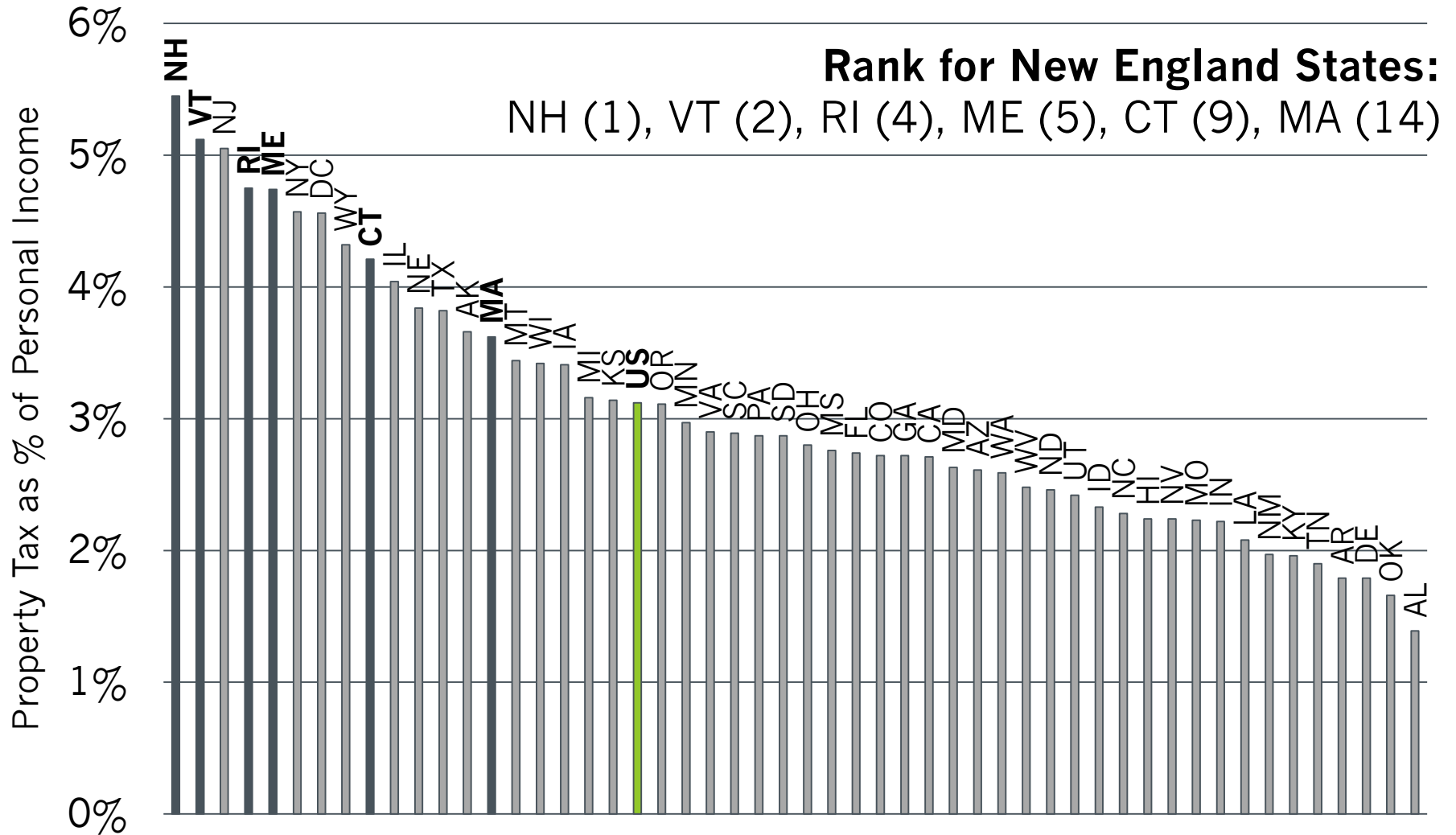
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May 6, 2019: Economic Perspectives on State and Local Taxes

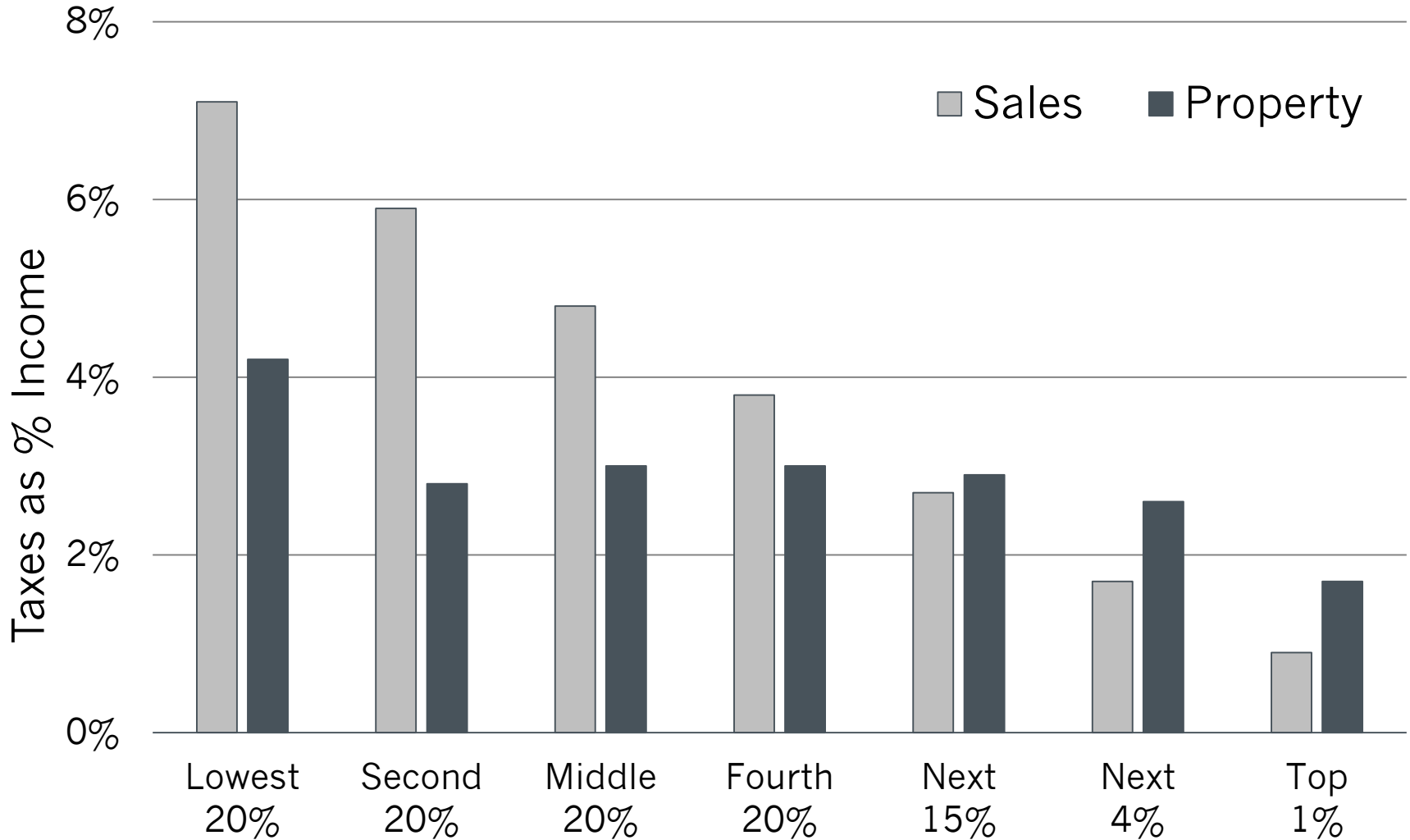
# Property Taxes as a Share of Income (2016)



Source: Tax Policy Center, State & Local Government Finance Data Query System.

- **Criticisms of property tax:**
  - X Not directly tied to ability to pay
  - X Large lump-sum payments
  - X Regressive?

# Property Taxes as % Family Income



Source: Institute on Taxation & Economic Policy, *Who Pays* (6<sup>th</sup> Edition).

- **Criticisms of property tax:**
  - X Not directly tied to ability to pay
  - X Large lump-sum payments
  - X Regressive?
- **Strengths of property tax:**
  - ✓ More progressive than alternative revenue sources
  - ✓ Stable over the business cycle
  - ✓ Immobile tax base empowers local governments

## What to do about high property taxes?

- **Property tax relief programs** that address problems of property tax without undermining its strengths

# Homestead Exemptions

- Exempt certain amount of assessed value from taxation
  - Reduces amount of taxes owed on property

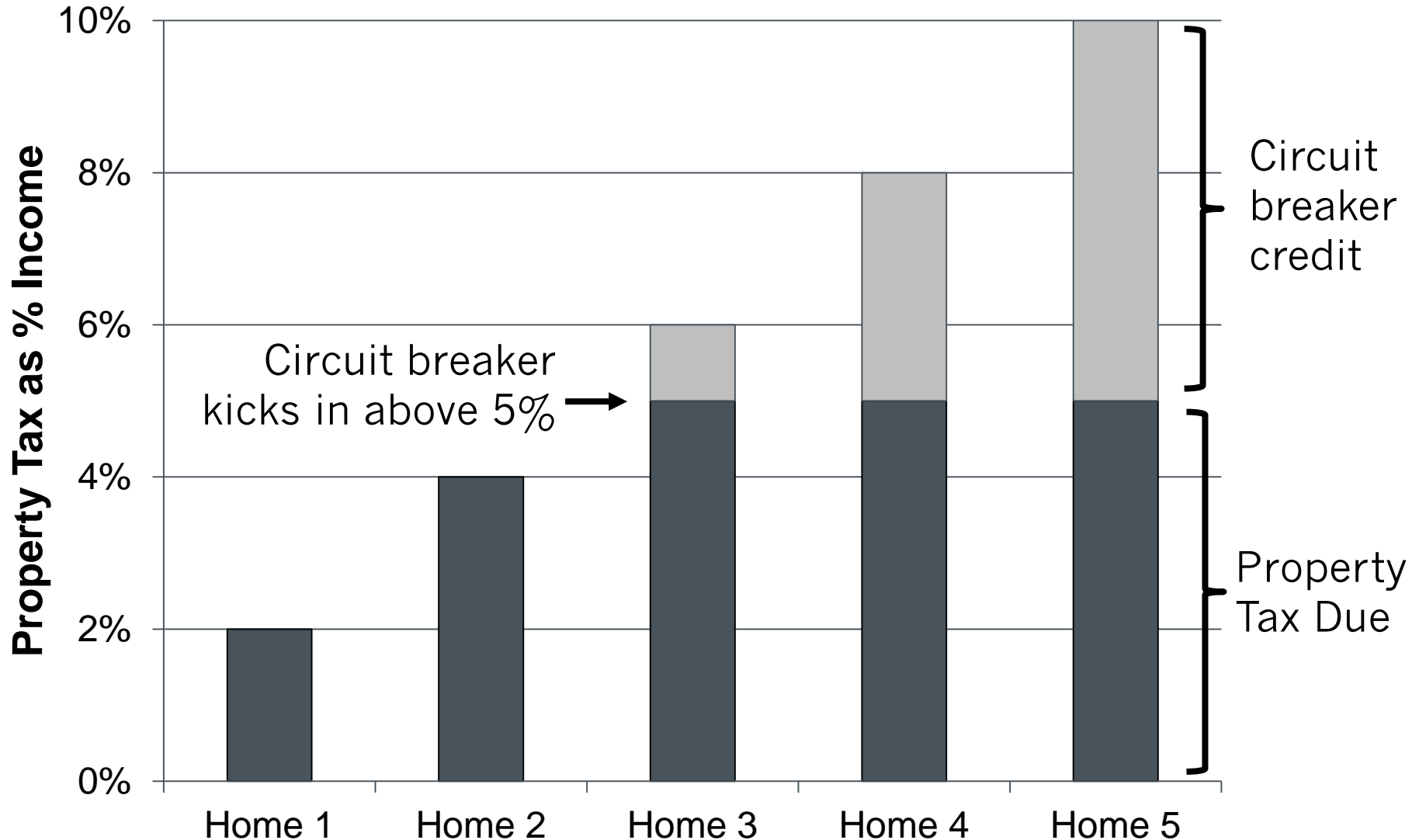
	<b>\$100,000 Home</b>	<b>\$200,000 Home</b>	<b>\$400,000 Home</b>
Tax <b>before</b> exemptions (1% rate)	1,000	2,000	4,000
<b>\$20,000 Homestead Exemption</b>			
Taxable value after \$20,000 exemption	80,000	180,000	380,000
Tax <b>after</b> \$20,000 exemption	800	1,800	3,800
\$ Savings	200	200	200
<b>% Savings</b>	<b>20%</b>	<b>10%</b>	<b>5%</b>

- **Percentage** exemptions not very progressive

# Circuit Breakers

- Prevent households from being overburdened by property taxes
  - Assist those with the least ability to pay
- “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





# Property Tax 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

# Monthly Property Taxes

- Half of homeowners pay property tax 1 or 2x per year  
→ Financial challenges for many households
- 47% don't have **\$400** for emergency expense (Fed)
- Median Annual Property Tax Bill (2017 ACS):

CT = \$5,710	MA = \$4,561	ME = \$2,562
NH = \$5,624	RI = \$4,173	VT = \$4,210

- 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

# Property Tax Relief Options

	Homestead Exemptions	Circuit Breakers	Tax Deferrals	Monthly Taxes
<b>Goals</b>				
Progressive	Yes	Yes	No	No
Help those with low ability to pay	Not really	Yes (Job loss, gentrification)	Yes (Housing rich, income poor)	No
Break-up large lump sum bills	No	No	Helps	Yes
<b>Other Considerations</b>				
Cost	High	Moderate	Minimal	Minimal
Participation rate	High (90-100%)	Low (40-50%)	Very low (Under 1%)	Very low (2-5%)

**Outreach is critical !**

# Recap

- Property tax has key **strengths**:
  - More progressive than alternative revenue sources
  - Stable over the business cycle
  - Immobile tax base empowers local governments
- Property tax relief programs can address weaknesses:
  - **Homestead exemptions** make the property tax more progressive and have high participation rates, but are expensive
  - **Circuit breakers** target tax relief to households with least ability to pay, but outreach needed to increase participation
  - **Tax deferrals** help taxpayers who are housing-rich but income-poor with no long-term cost for other taxpayers
  - **Monthly taxes** help households break-up large payments into manageable expense, but don't reduce tax bills