



LINCOLN INSTITUTE  
OF LAND POLICY

# Property Tax Relief for Homeowners

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## Property Tax Relief for Homeowners



ADAM H. LANGLEY AND JOAN YOUNGMAN

POLICY FOCUS REPORT | LINCOLN INSTITUTE OF LAND POLICY

# House Keeping

- This event is being recorded and will be shared on Lincoln Institute of Land Policy's YouTube page.
- Please submit your questions through the Q&A box. We will do our best to answer as many as we can.



## Property Tax Relief for Homeowners



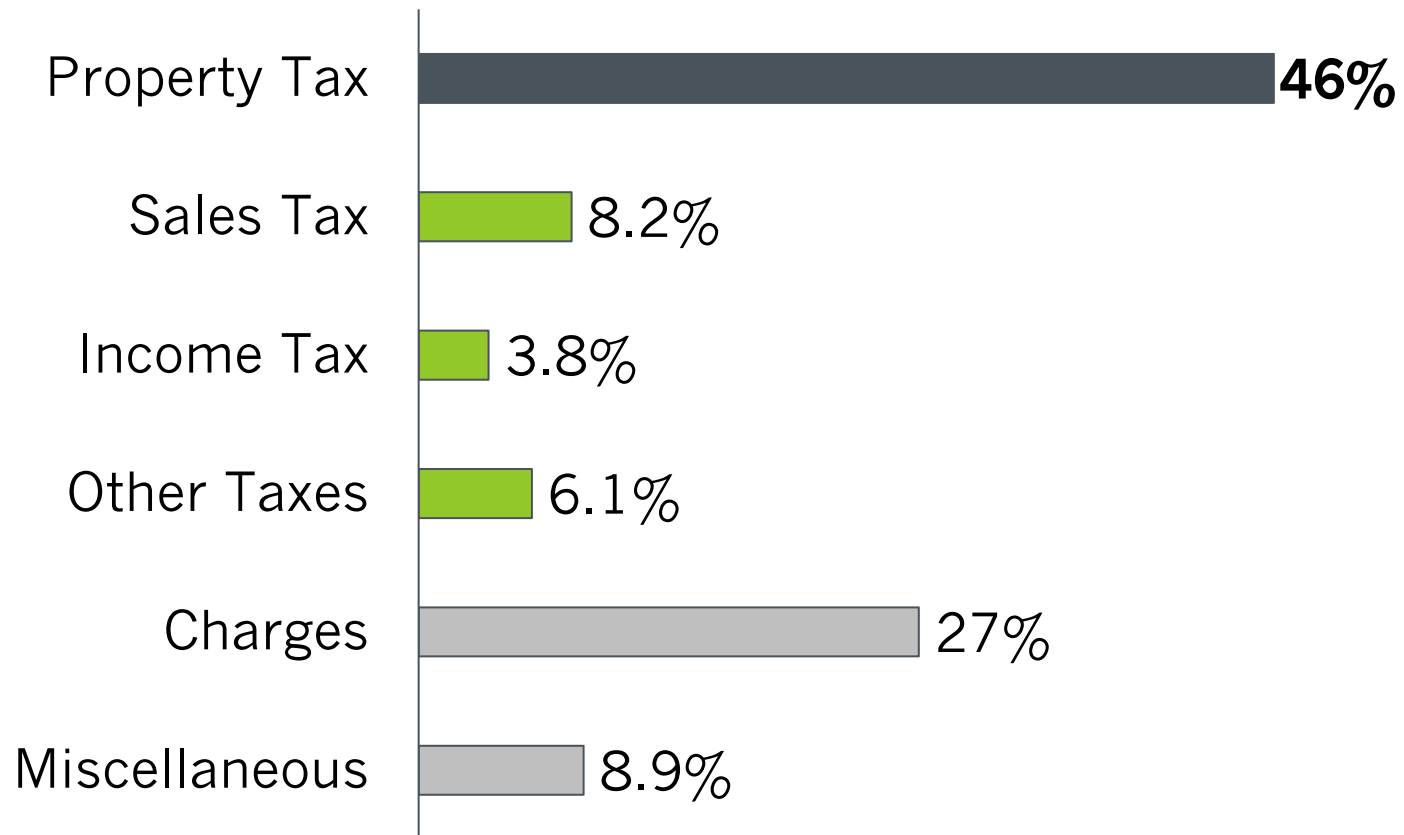
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## Outline

- Strengths and Challenges
- Recommendations

# Revenue Raised by Local Government (2019)

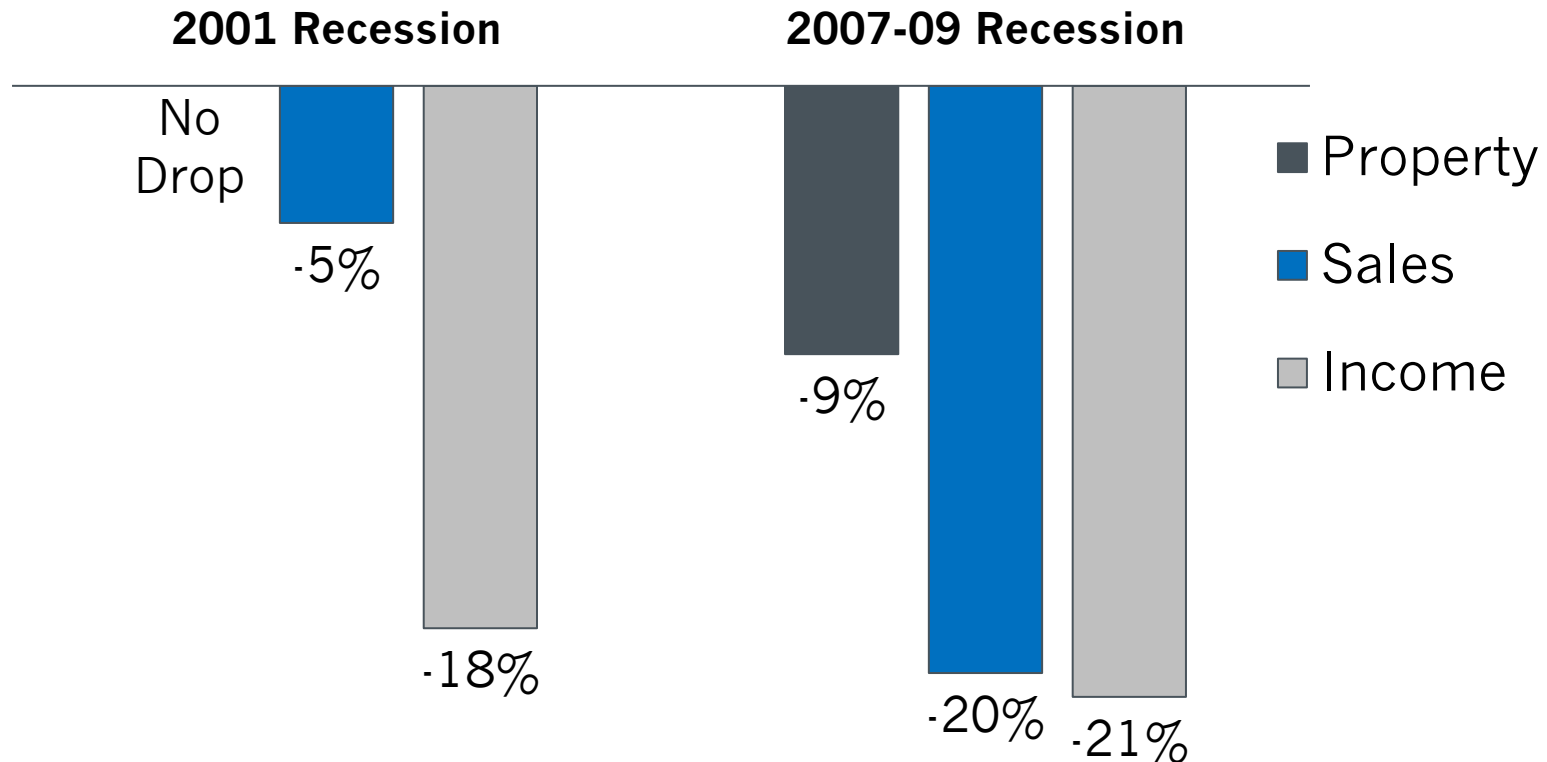


Source: U.S. Census Bureau. *Annual Survey of State and Local Government Finances*.

# 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).

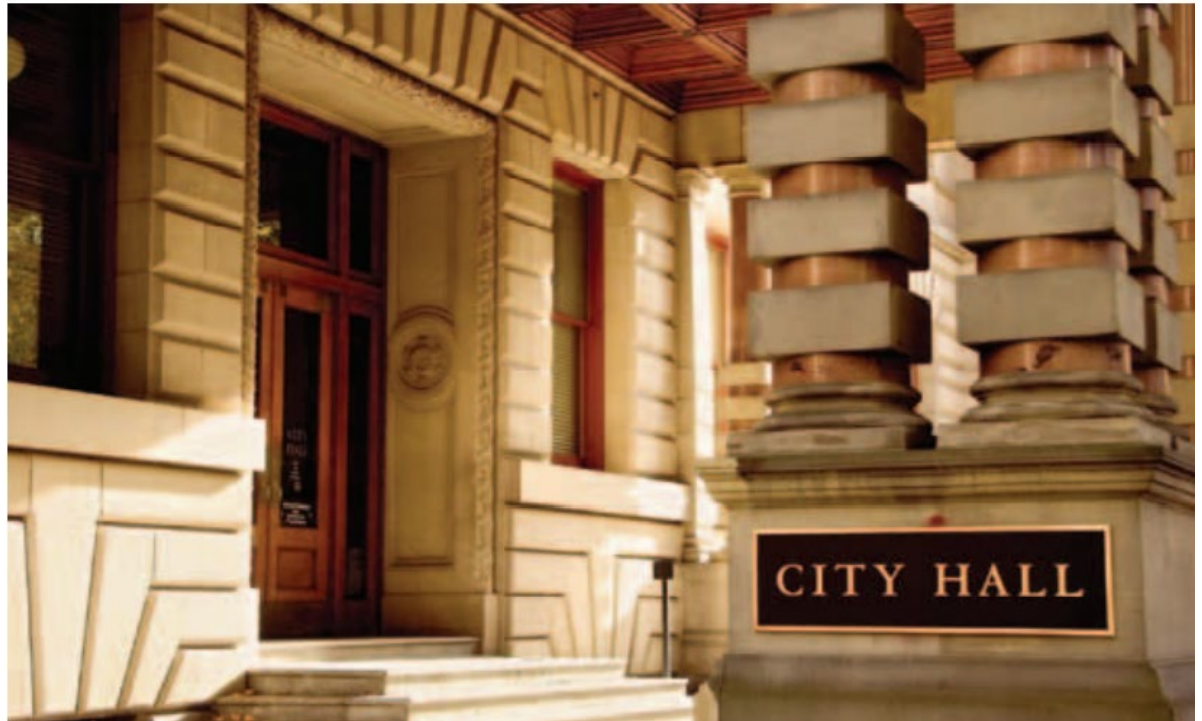
# Strengths of the Property Tax

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



# Strengths of the Property Tax

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





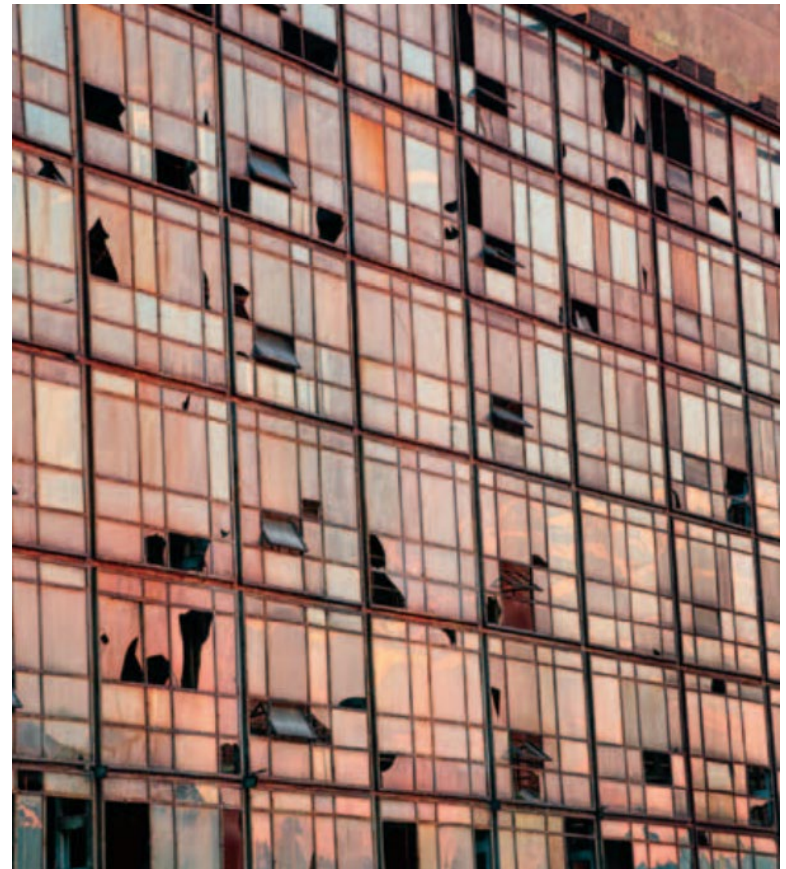
# Strengths of the Property Tax

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



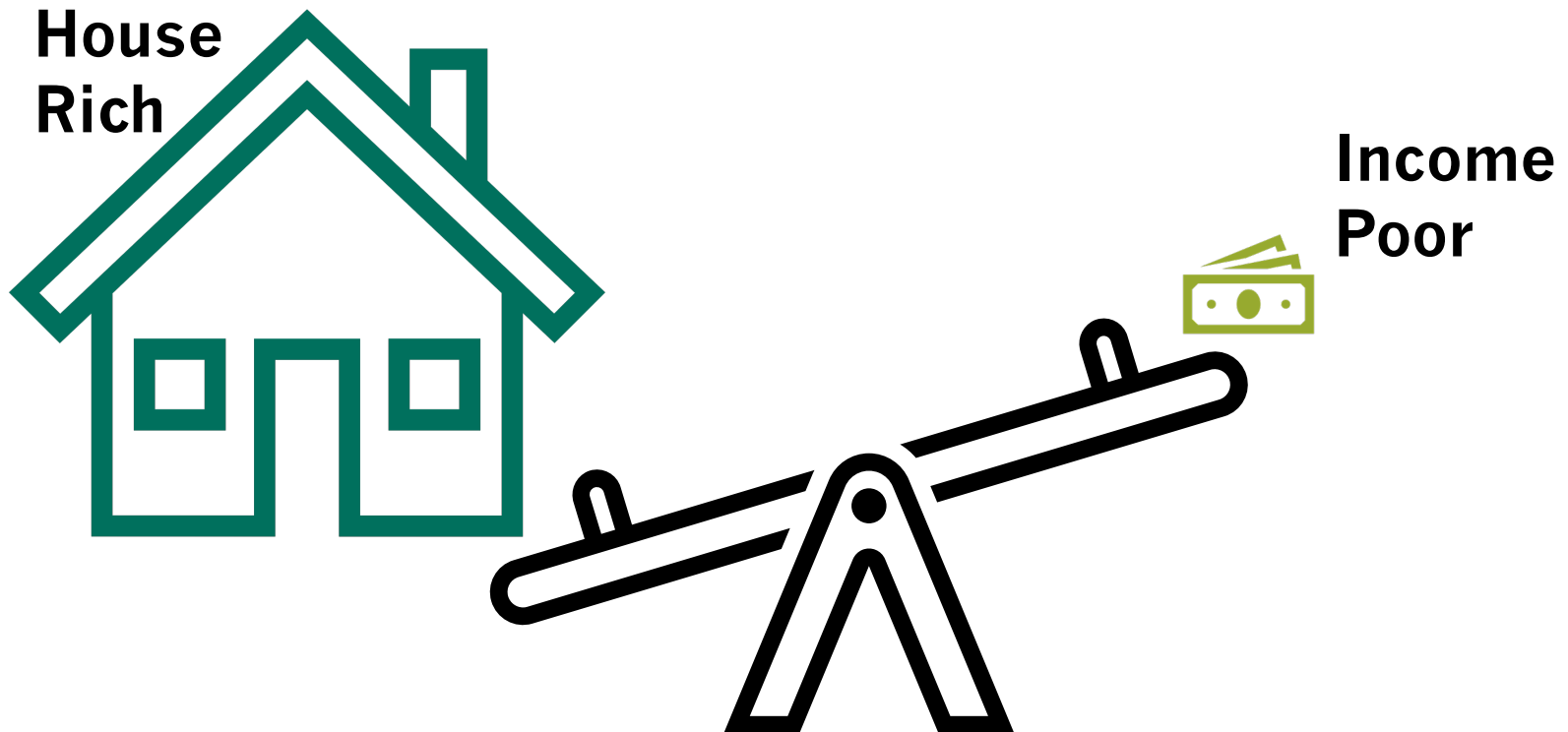
# Challenges for the Property Tax

- **Fiscal disparities**



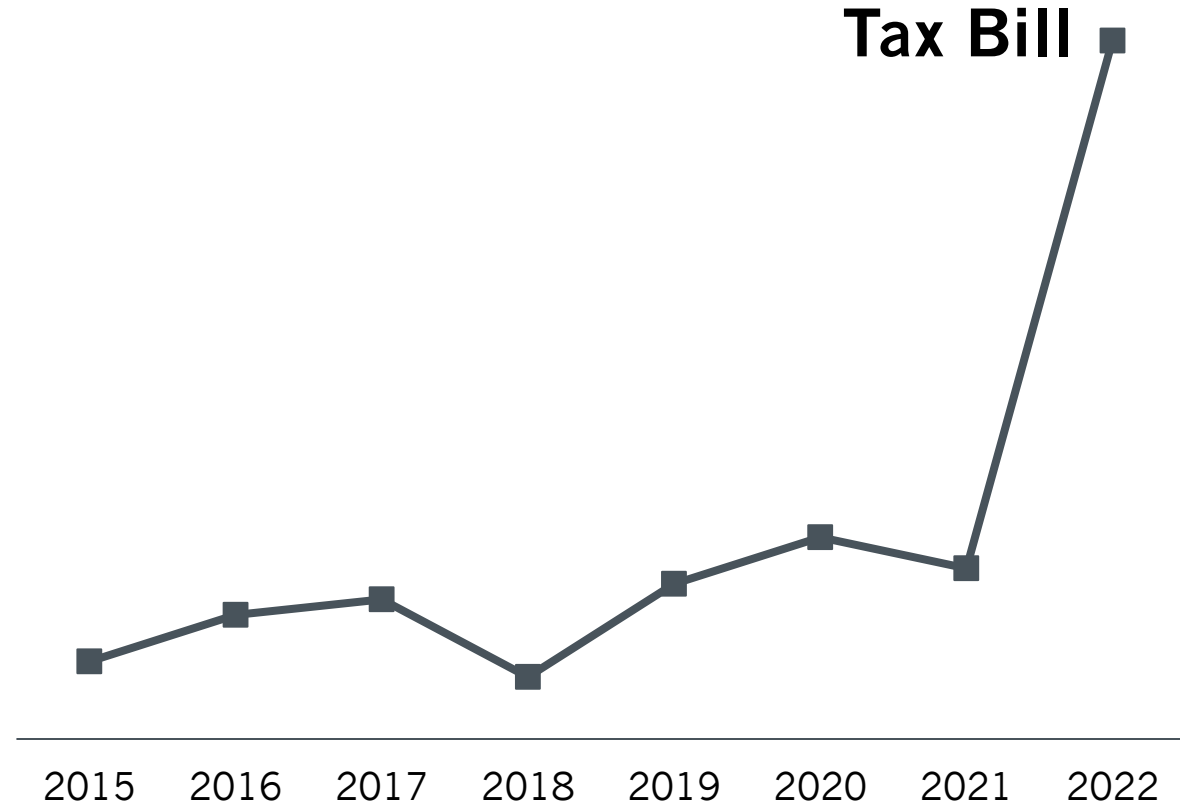
# Challenges for the Property Tax

- 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**

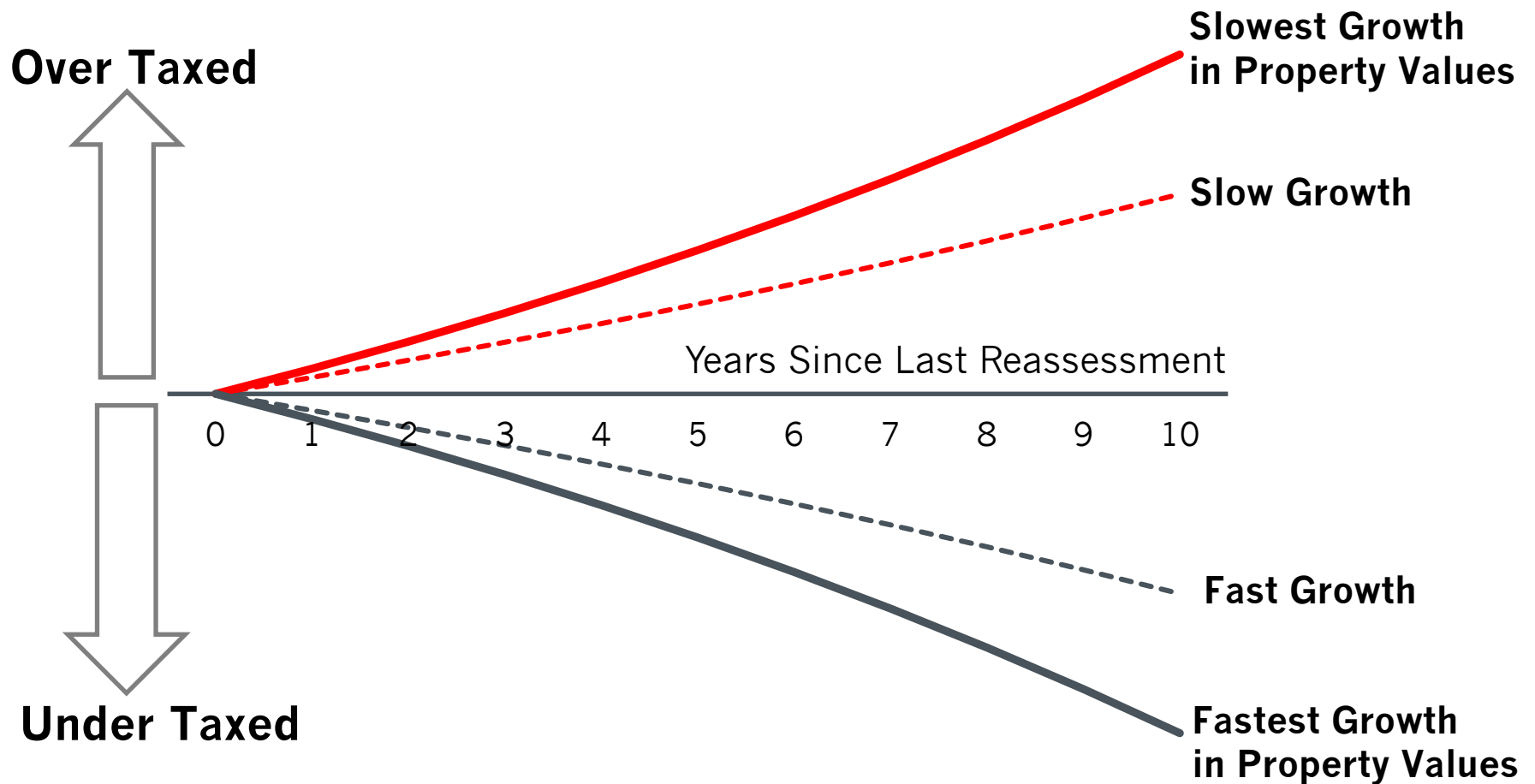


# Outline

- **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

## Tax Inequities Grow without Reassessment





# 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

**\$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

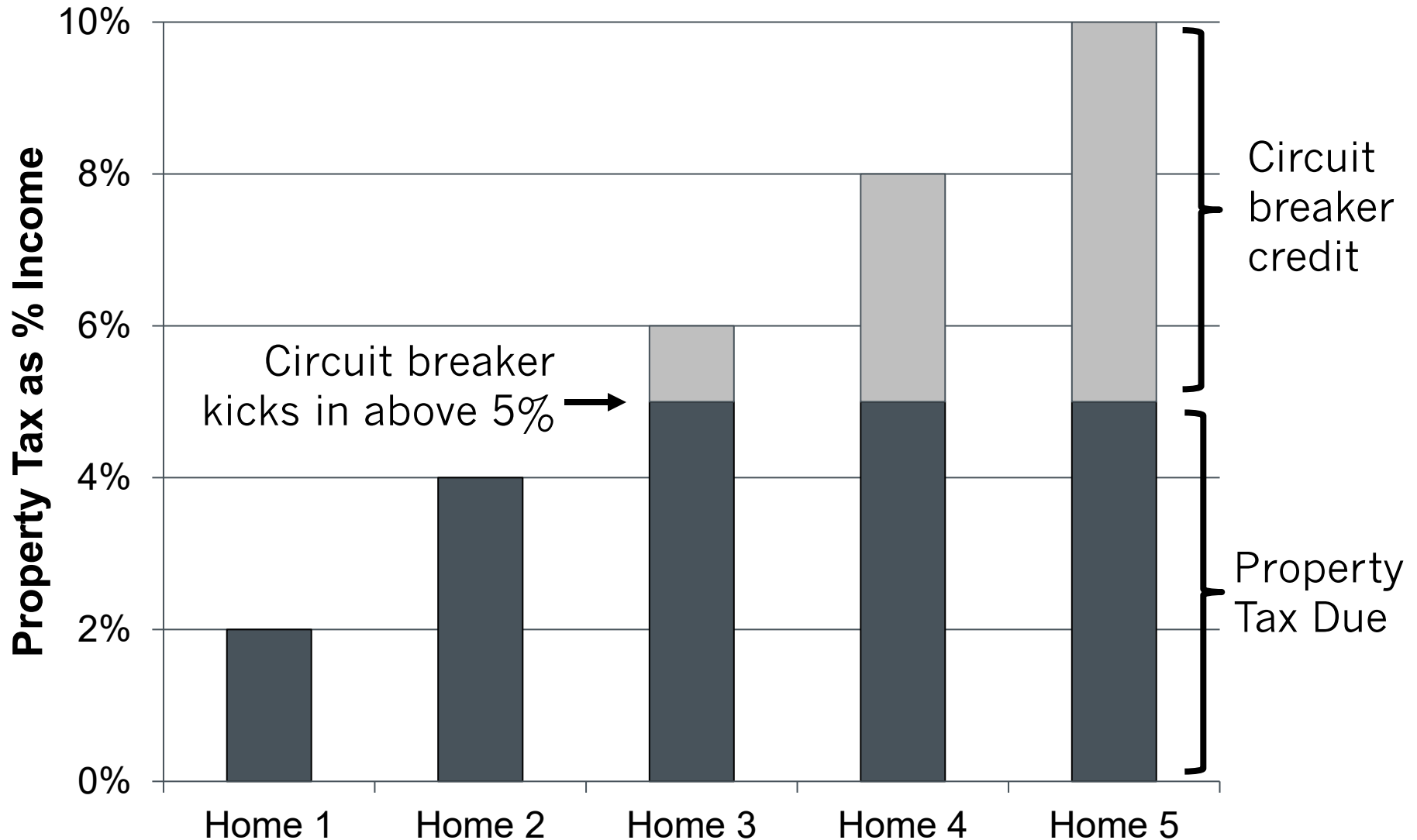
- State-funded property tax relief is more efficient

# 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

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

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

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

<b>Relief Option</b>	<b>Cost Effectiveness</b>	<b>Who Gets Tax Relief *</b>
<b>Homestead Exemptions &amp; Credits</b>	Low	All homeowners
<b>Income-Based Homestead Credits</b>	Moderate	All lower income homeowners
<b>Circuit Breakers</b>	High	Only households with heavy tax burdens
<b>Deferrals</b>	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

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

## 5. Avoid Tax Limits, Especially Assessment Limits

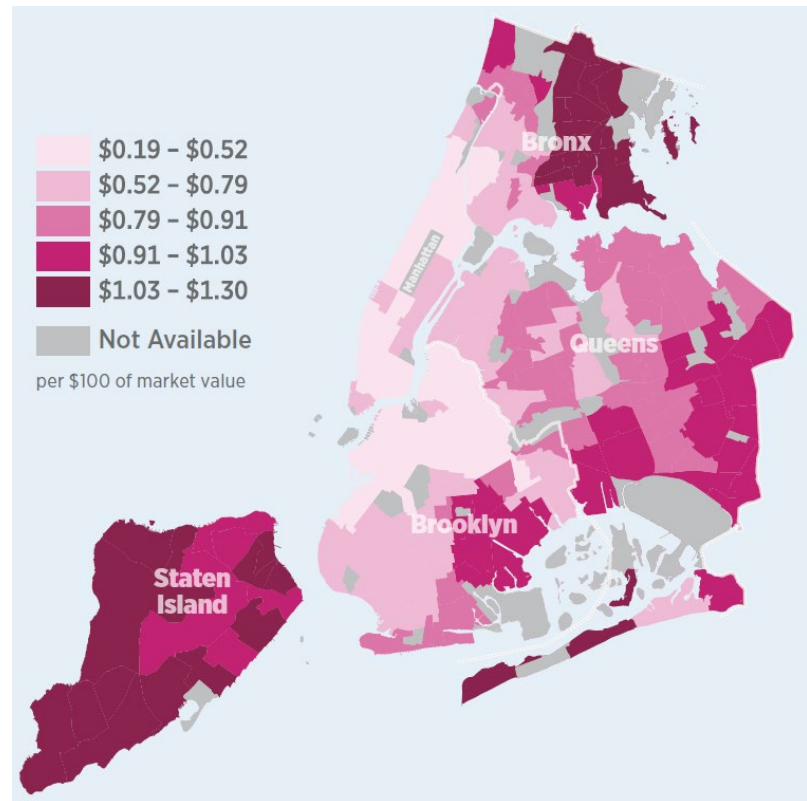
- **Effects of Tax Limits**

- Reduced flexibility and local autonomy
- Change revenue mix to less reliable sources
- Restrictive tax limits erode quality of local services
- *Assessment limits have most severe consequences*

## 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

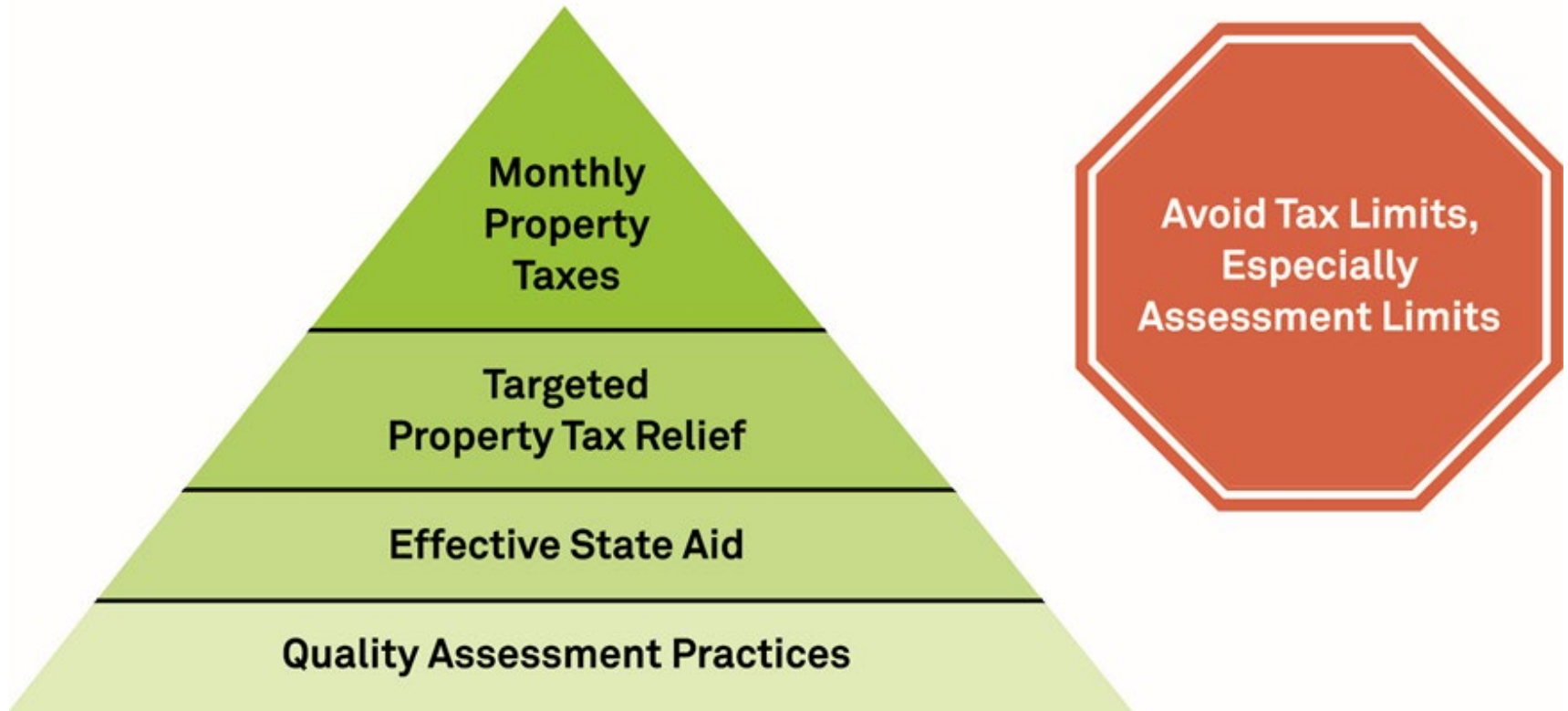


## Recap

- **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)*  
<https://www.lincolninst.edu/publications/policy-focus-reports/property-tax-relief-homeowners>

# Property Tax Relief in Boston

# Elements of Massachusetts Property Tax Reform



- Adoption of and adherence to **market value assessment standards** is the most important reform element
- *Local government control* over property taxes was preserved **but** meaningful reforms in *state regulation and assistance* were added to ensure adherence to market value standards
- Voters chose to **regulate levies and rates**, but **not assessments**, when implementing a property tax limit (*i.e., no assessments caps or Prop 13 style limitations to distort market value*)
- Residential tax preference (classification) is provided thru **rates, not valuations**, via *local option* under statutory limits
- Homestead exemption

# Homestead Exemptions in Boston

- Homestead exemption is only available to taxpayers who *own and occupy a property as their principal residence* (i.e., no second homes or rental properties)
- **Fix dollar exemption**, set at a percentage of the **average assessed value for all** residential property
  - **Local option** to implement, and communities can choose an exemption percentage up to a maximum established by state law
  - History of exemption limit:
    - 10%: 1983
    - 20%: 1989
    - 30%: 2000
    - 35%: 2016
- Implementation is *revenue neutral* for the community (i.e., the tax rate is increased to compensate for exemption amount)
- Exemption *redistributes* tax burden *within* the residential property class - no impact on business property

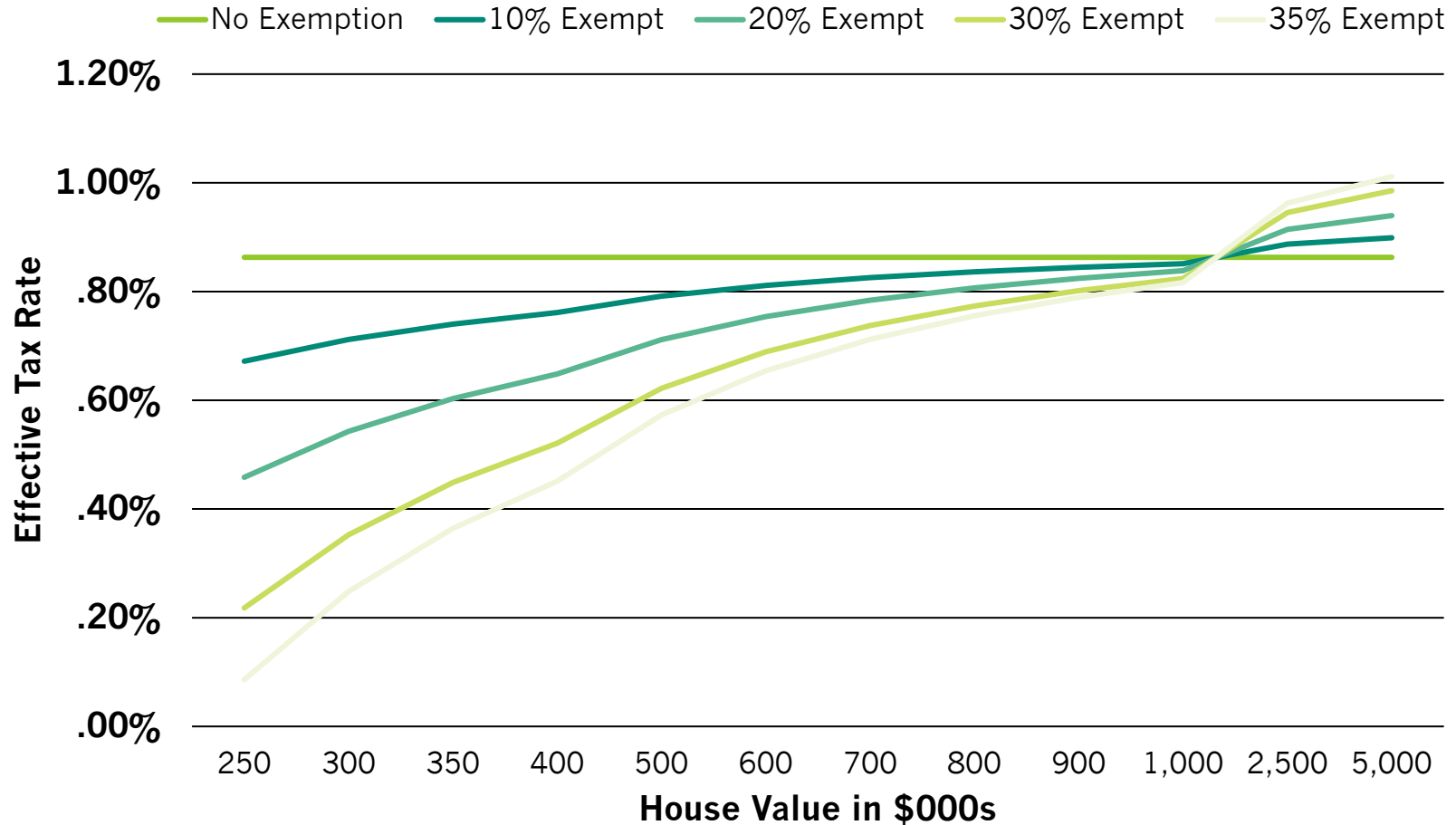
# Homestead Exemption Simulation – Boston FY 17 Data

**Average Residential Value = \$656,391**

<b>Exemption Percentage</b>	<b>Exemption Value</b>	<b>Tax Savings</b>	<b>Tax Rate</b>
0%	-	-	8.63
10%	65,639	598	9.11
20%	131,278	1,267	9.65
30%	196,917	2,020	10.26
35%	229,737	2,435	10.60

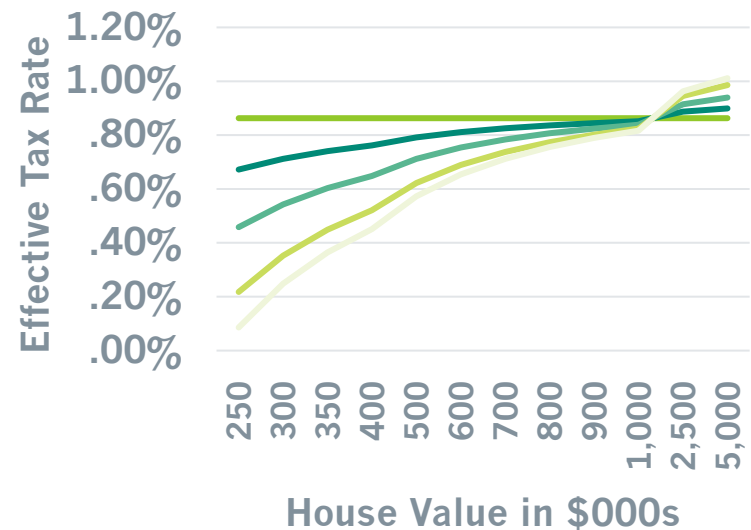
- As the exemption percentage increases, the tax savings for the exemption also increases and the tax rate for all residential properties is increased to compensate

# Homestead Exemption Effective Tax Rate Comparisons



# Observations

- Exemption becomes more progressive *for homeowners* as the exemption percentage increases
  - Properties that are owner-occupied and are of low- and moderate-value benefit from the exemption and pay less
  - Rental properties and second homes that are not owner-occupied, and higher-valued owner-occupied properties pay more
- The potential negative impact on renters who live in properties with higher tax bills as a result of the exemption is a downside
- **If** lower-valued properties present special valuation challenges that are inherent to real estate markets, properly structured and targeted homestead exemption program can redress this imbalance and result in a property tax that is highly progressive.







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# Questions?