

# Residential Property Tax Relief Policies to Promote Equity

A report from the  
Lincoln Institute of Land Policy



2022 August 28-31 ★ Boston, Massachusetts

**IAAO** Annual Conference & Exhibition

Promoting Professionalism  
in Assessment Administration

The logo for the IAAO Annual Conference & Exhibition. It features a stylized cityscape with various buildings, including a prominent tower and a lighthouse, rendered in white lines on a dark blue background. The text '2022 August 28-31 ★ Boston, Massachusetts' is in a red banner at the top. Below that, 'IAAO' is written in large, red, outlined letters, followed by 'Annual Conference & Exhibition' in blue. At the bottom, a yellow banner contains the text 'Promoting Professionalism in Assessment Administration' in blue.

## Presenters

- **Adam H. Langley**, *Lincoln Institute of Land Policy*
- **Ron Rakow**, *Lincoln Institute of Land Policy*
- **Joan Youngman**, *Lincoln Institute of Land Policy*





## Property Tax Relief for Homeowners



ADAM H. LANGLEY AND JOAN YOUNGMAN

POLICY FOCUS REPORT LINCOLN INSTITUTE OF LAND POLICY

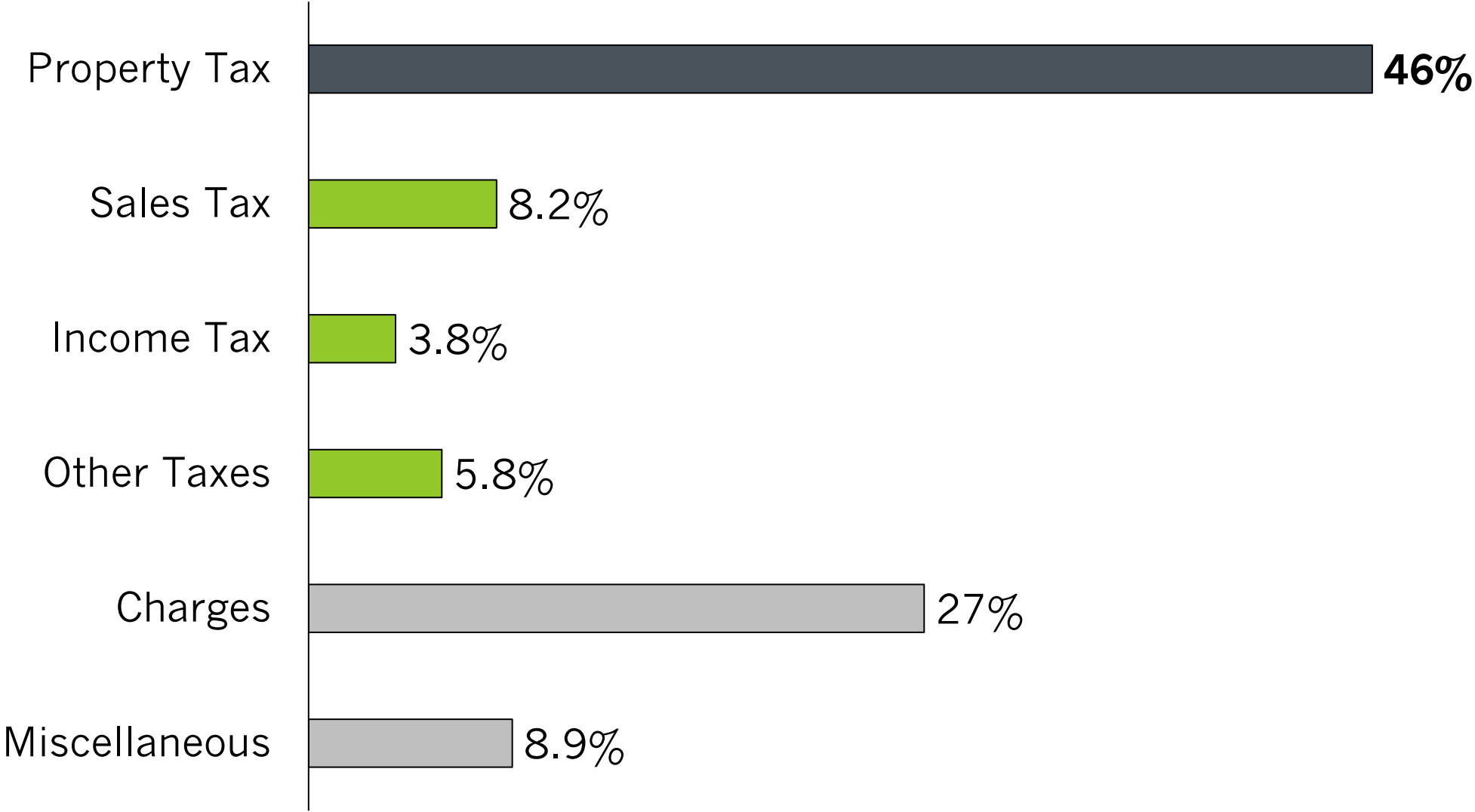
## Download Report:

[www.lincolninst.edu/publications](http://www.lincolninst.edu/publications)

## Outline

- Strengths and Challenges
- Recommendations

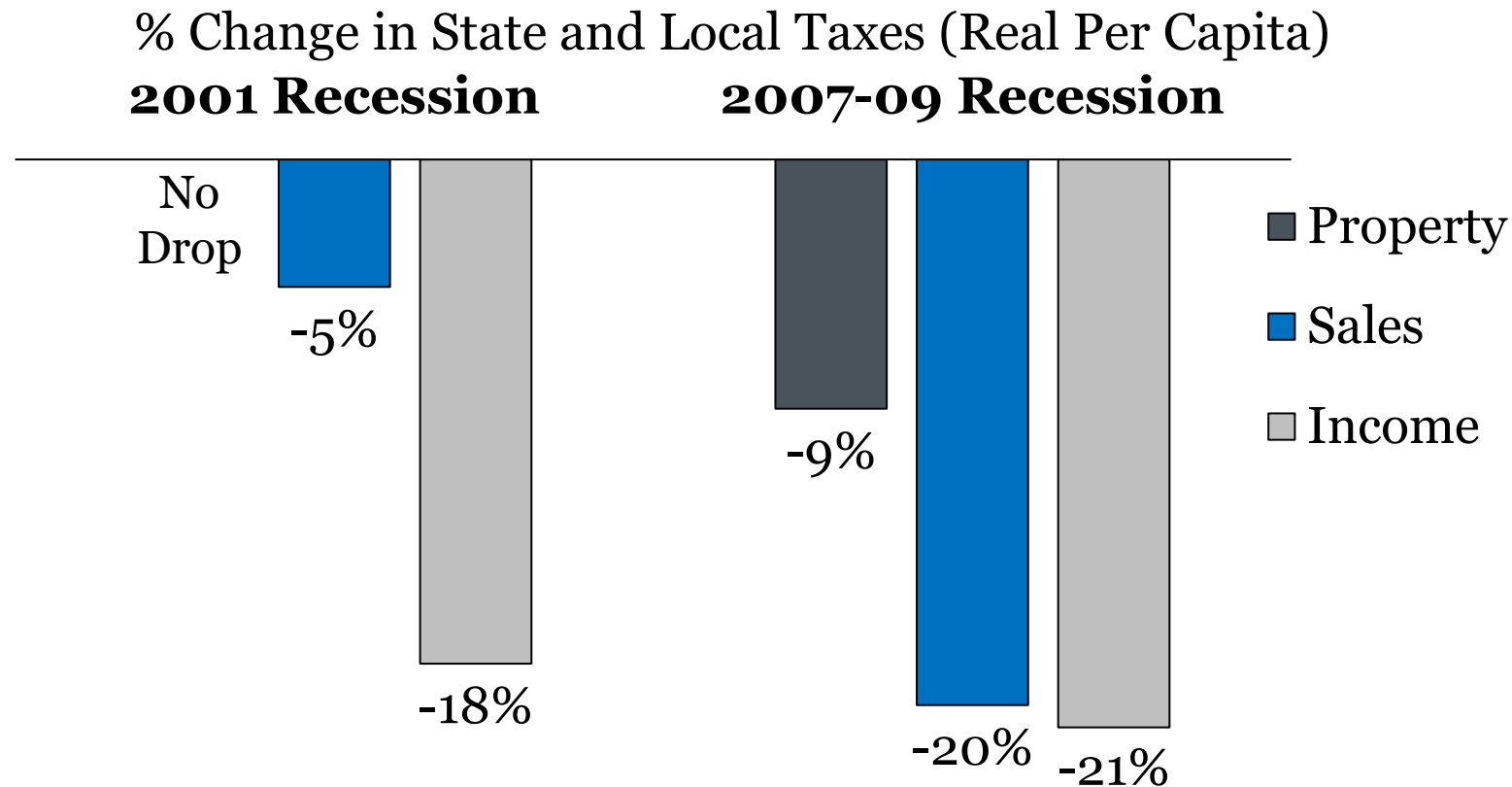
# Revenue Raised by Local Government (2020)



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

# Strengths of the Property Tax

- **A stable revenue source**



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
- **Visible and transparent**



## Strengths of the Property Tax

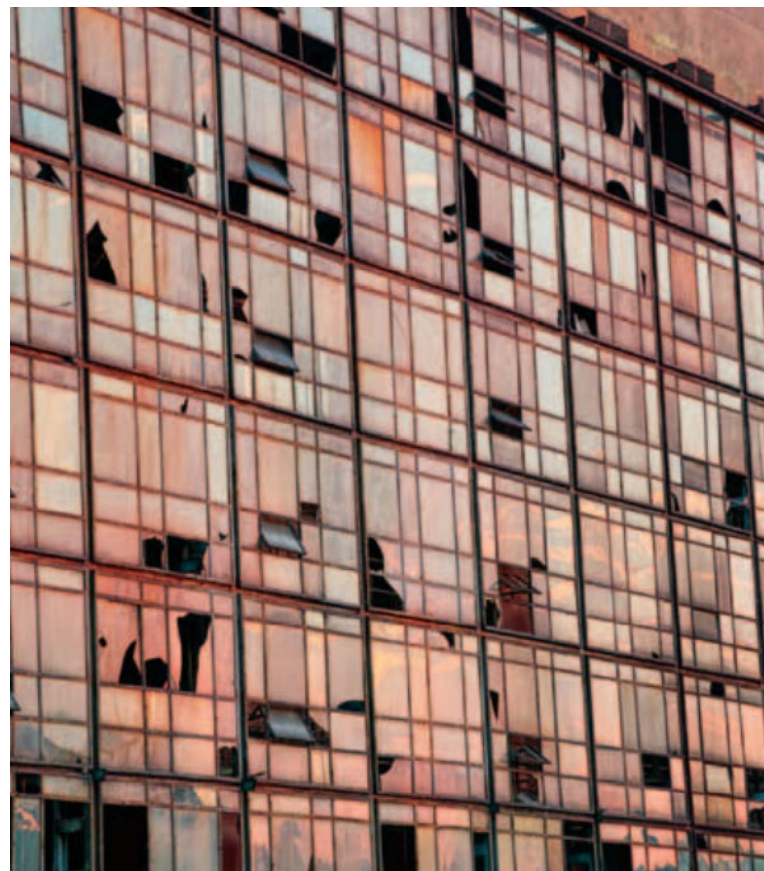
- A stable revenue source
- An immobile tax base
- Visible and transparent
- **Efficiency**





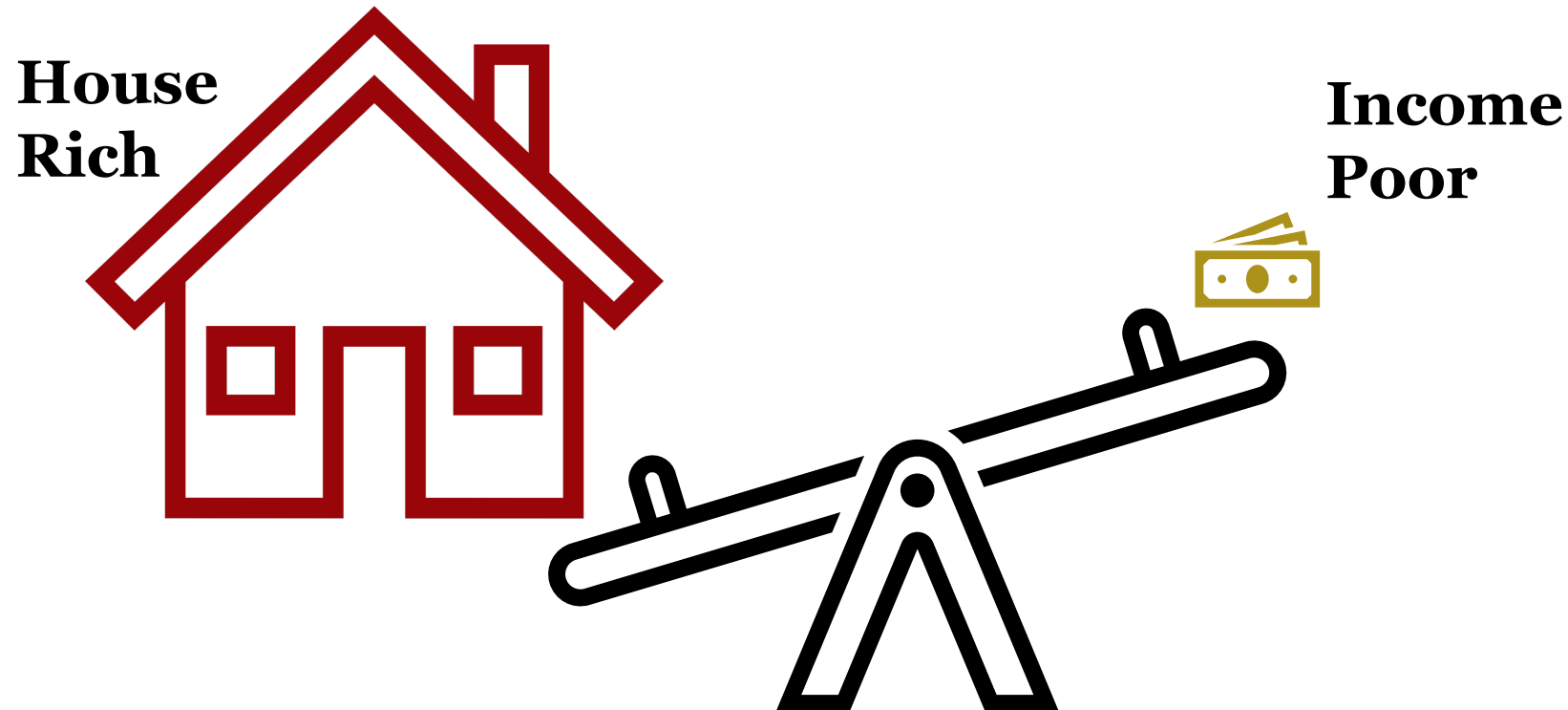
# Challenges for the Property Tax

- **Fiscal disparities**



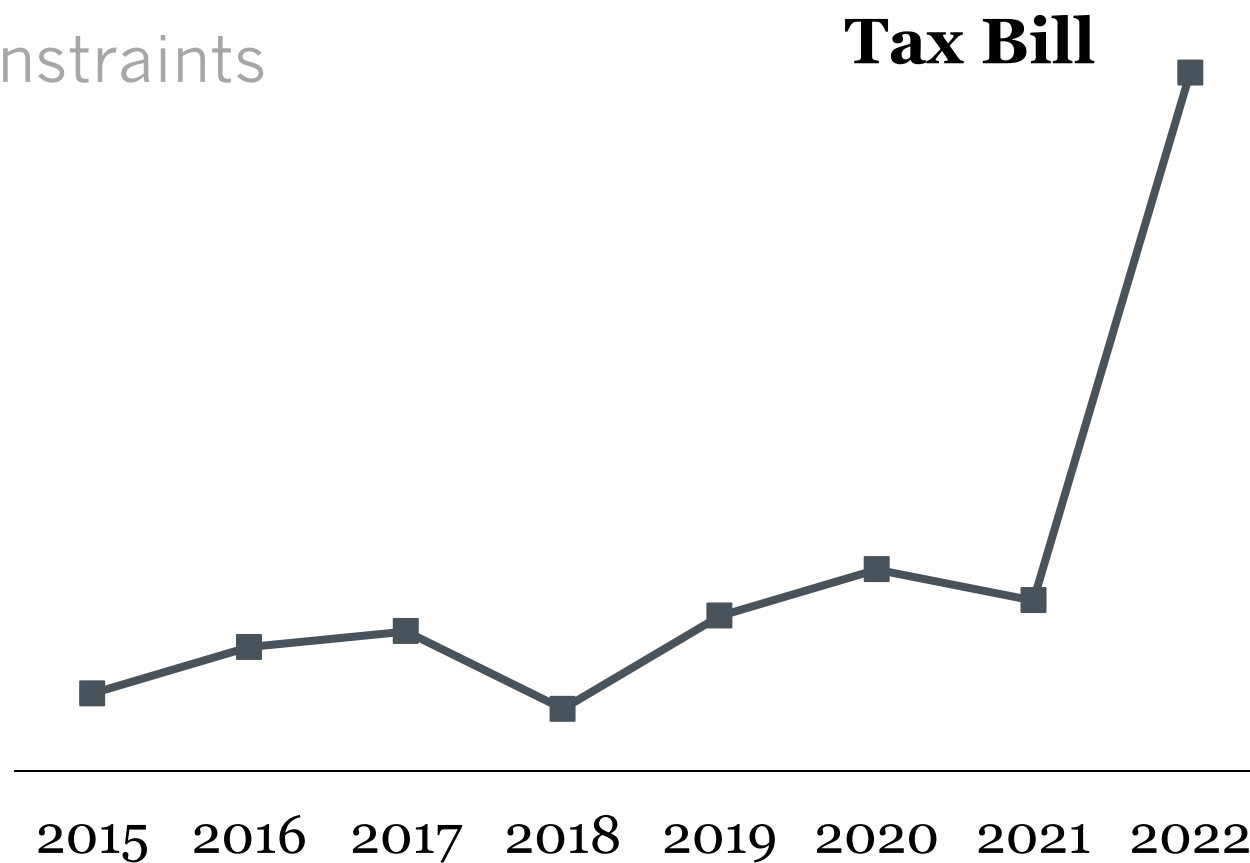
# Challenges for the Property Tax

- 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**

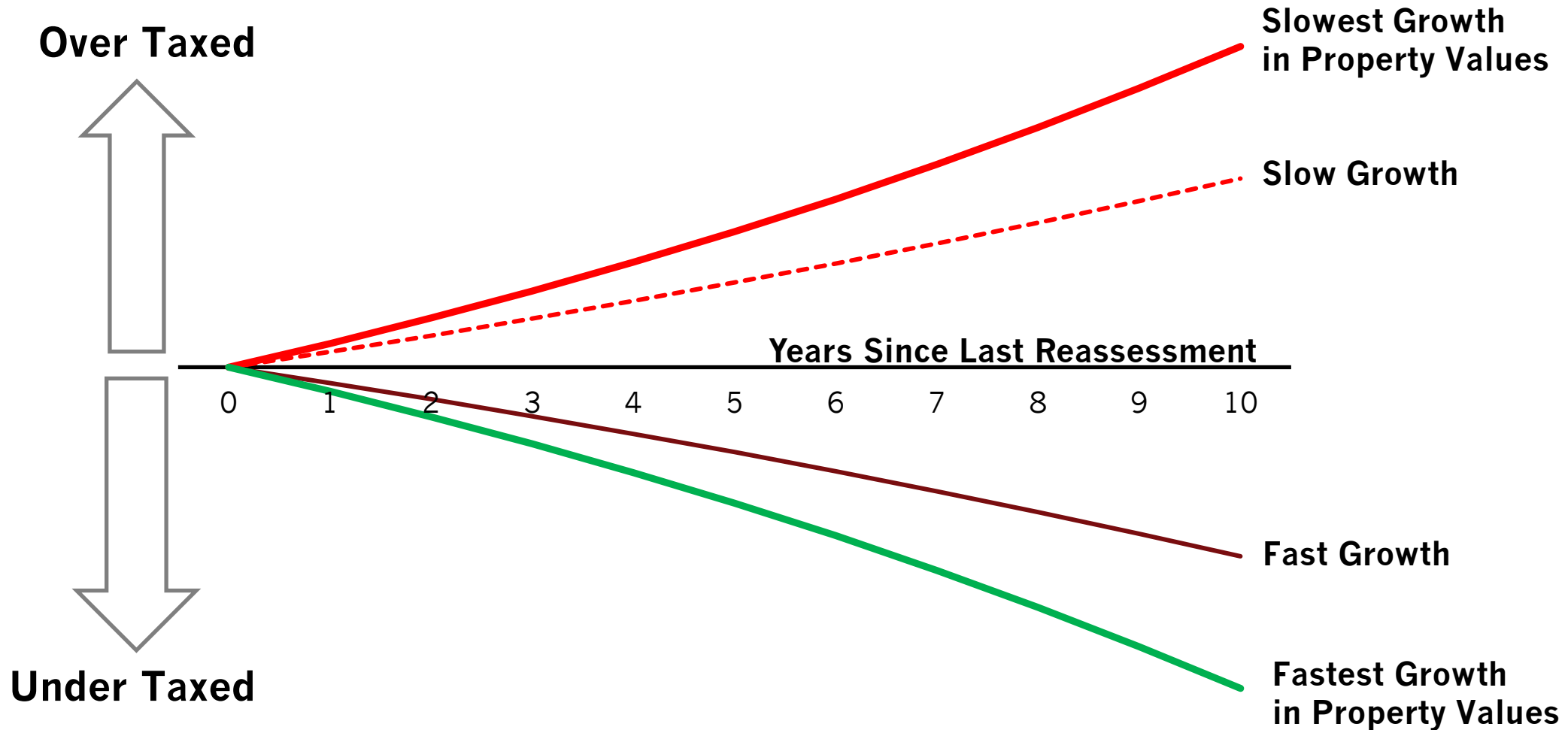


# Outline

- **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



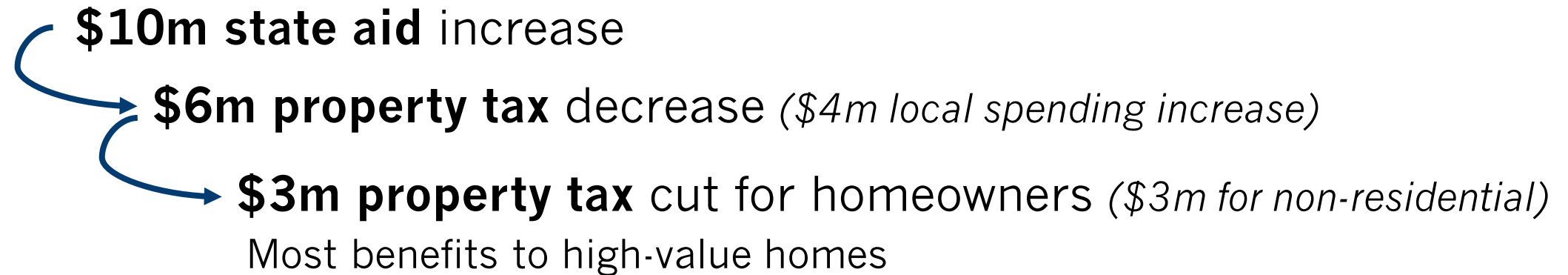
# 1. Quality Assessment Practices

- 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



- State-funded property tax relief is more efficient

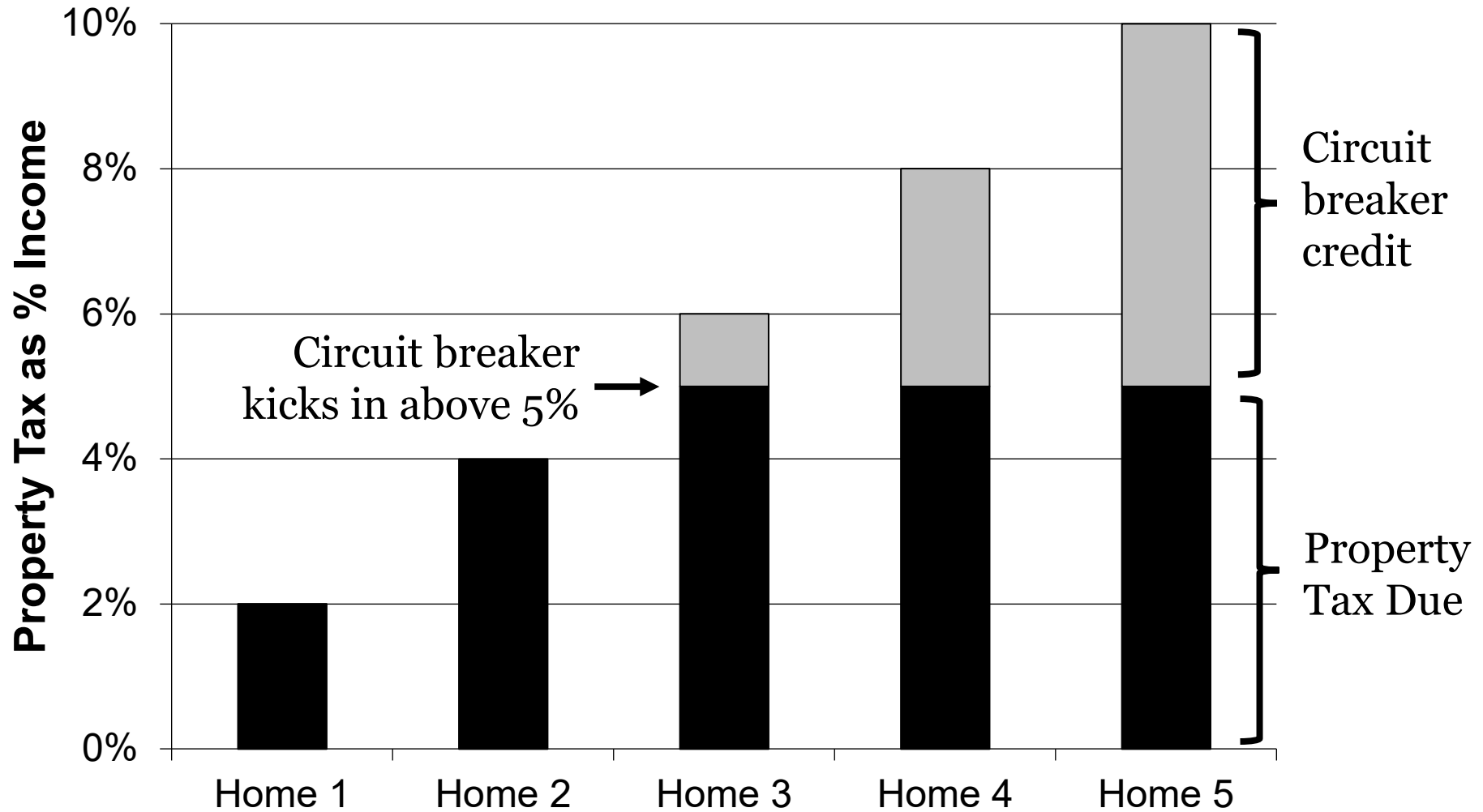
# 3. Targeted Property Tax Relief

## 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

# 3. Property Tax Relief

## 5% Threshold Circuit Breaker



## 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
<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 and 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)

**\$400**



Median Property Tax Bill = **\$2,578**



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

# 5. Avoid Tax Limits, Especially Assessment Limits

# 5. Avoid Tax Limits, Especially Assessment Limits

<b>Three Types of Tax Limits</b>		
<b>Rate</b> Limit	Cap tax rate for specific local governments	<b>AR:</b> Tax rate for municipalities can't exceed 50 mills
<b>Assessment</b> Limit	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</b> Limit	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

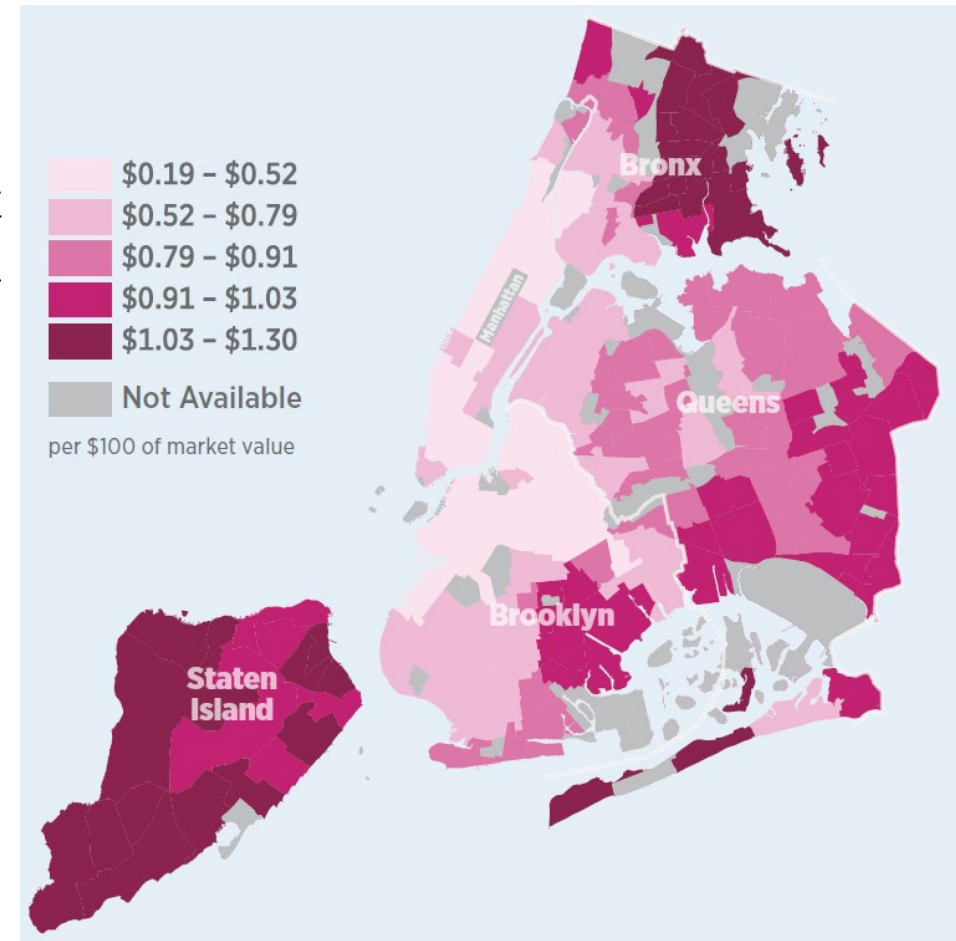
- Reduced flexibility and local autonomy
- Change revenue mix to less reliable sources
- Restrictive tax limits erode quality of local services

# 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

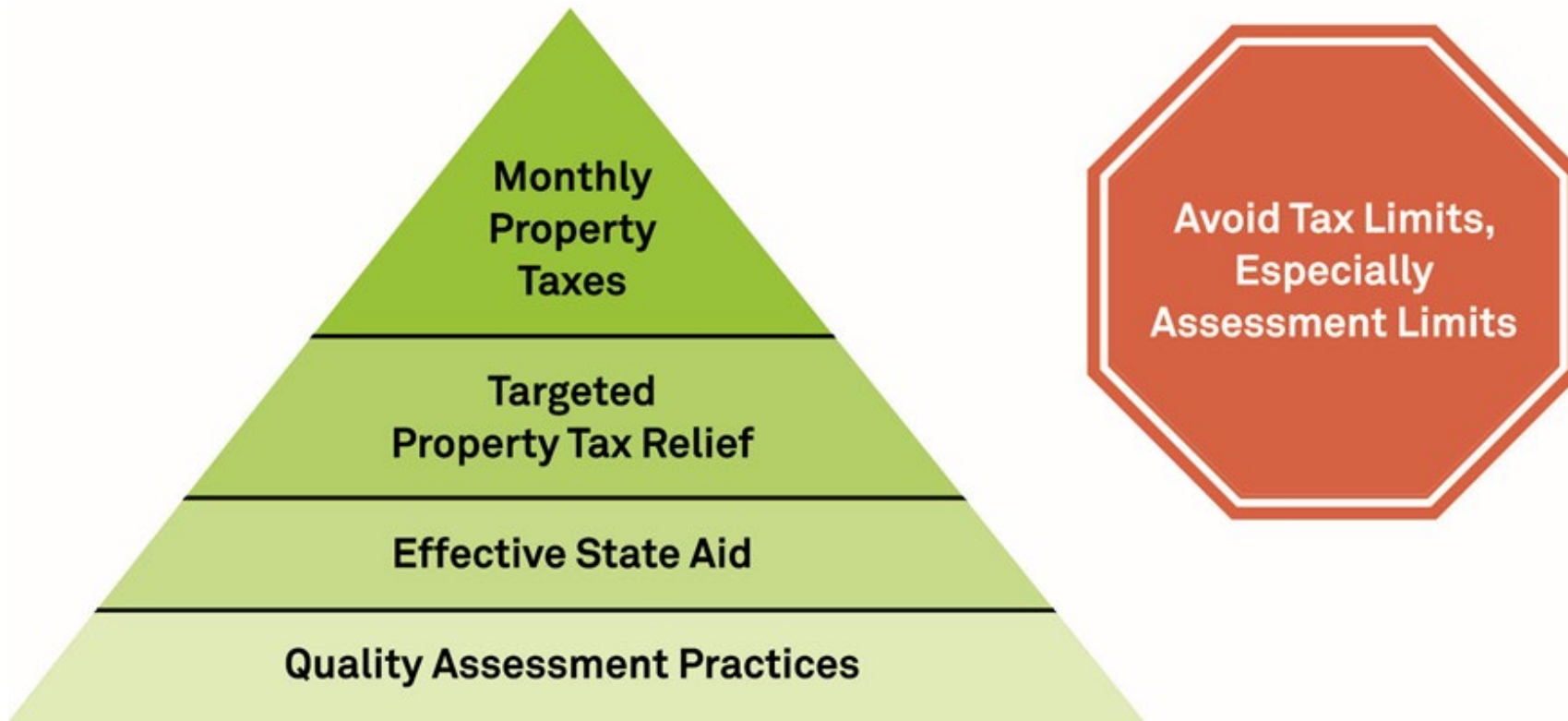
- Increases in property tax revenues due to higher values, are subject to same procedures as required for an increase in property tax rate under state law
  - Public hearings, public votes, mailings, etc.
- Otherwise, tax rate automatically adjusted down to revenue neutral rate
- Facilitates transparency and responsive rate-setting without imposing a binding constraint



## **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

## Keys to an Equitable and Efficient Property Tax System

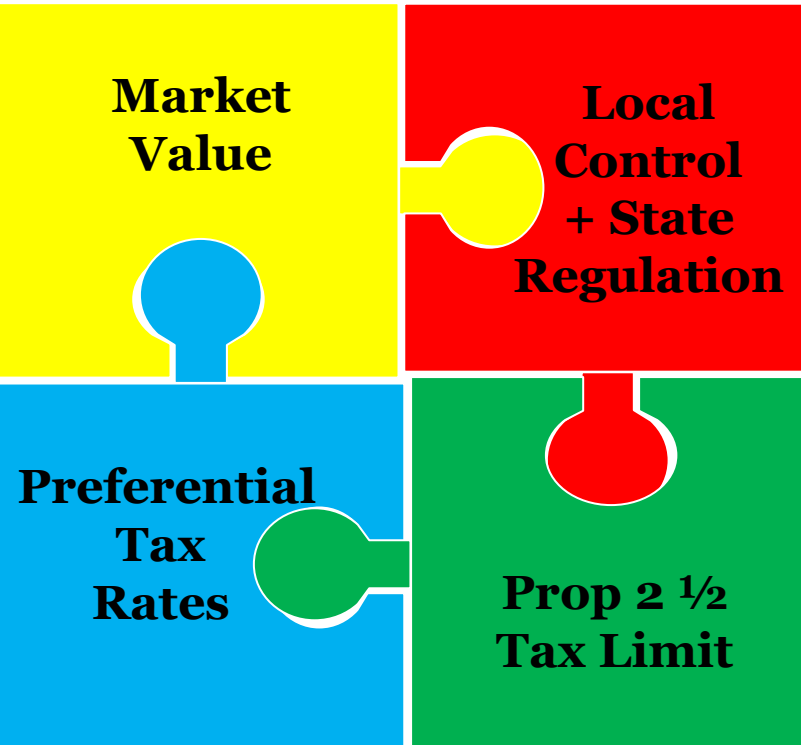


Learn More: *Property Tax Relief for Homeowners (2021)*

<https://www.lincolnst.edu/publications>

# 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
- Lincoln Institute Course on Massachusetts Experience:

<https://www.lincolnst.edu/courses-events/courses/successful-property-tax-reform-case-massachusetts>

# Homestead Exemption 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	-30% - 2000
-20% - 1989	-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



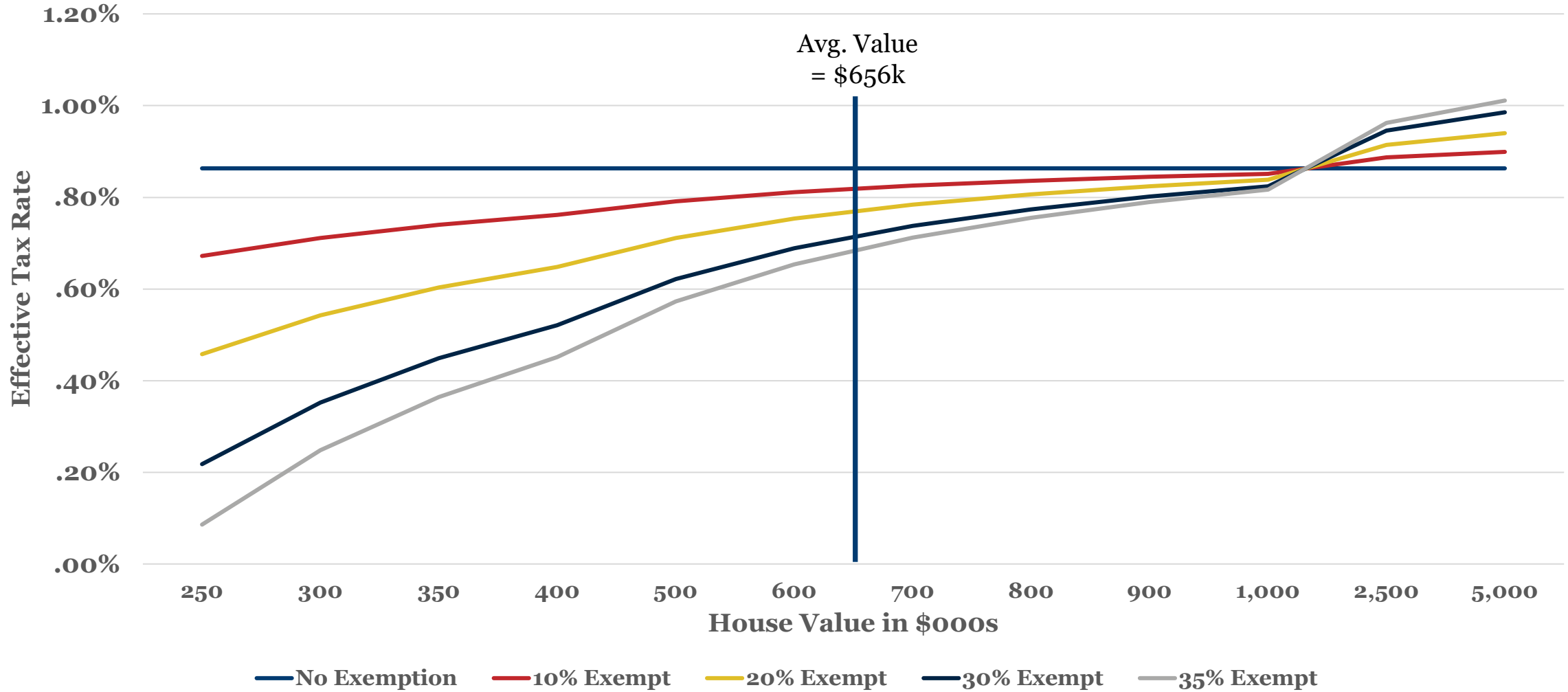
# Homestead Exemption Simulation – Boston FY 17 Data

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

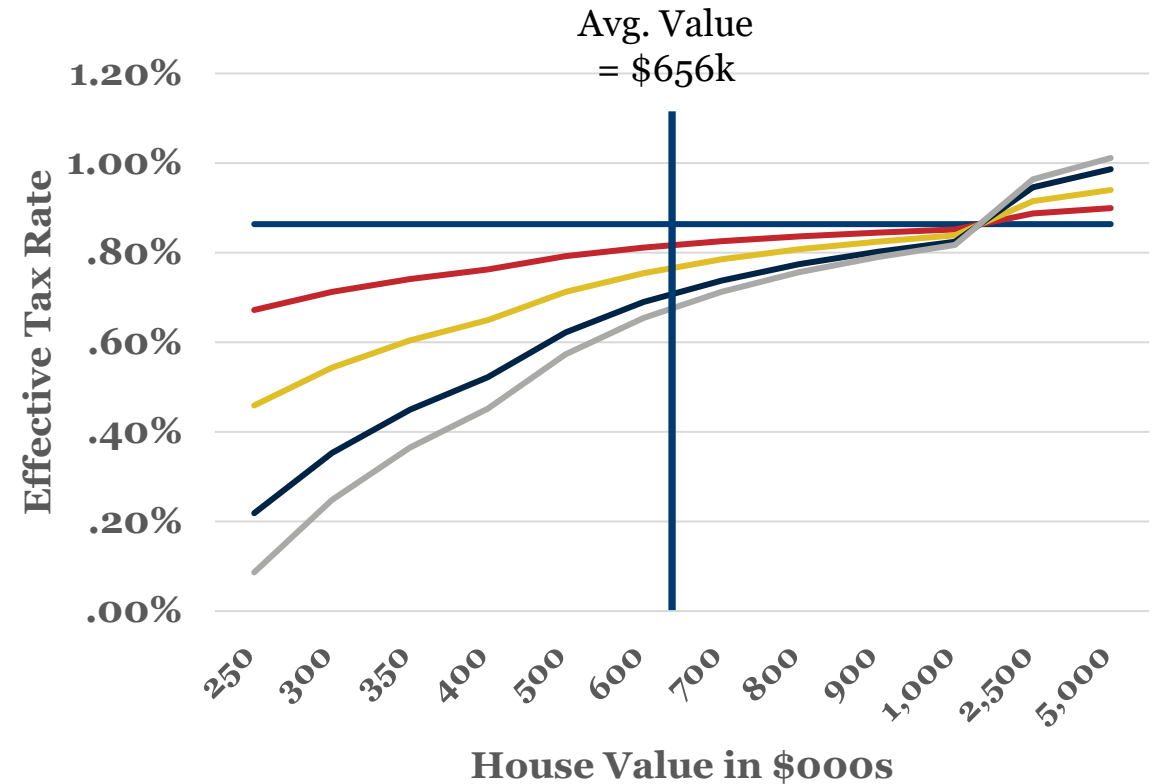
Exemption Percentage	Exemption Value	Tax Savings	Tax Rate
0%	-	-	8.63
10%	65,639	597.97	9.11
20%	131,278	1,266.83	9.65
30%	196,917	2,020.37	10.26
35%	229,737	2,435.21	10.60

- 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



- 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.





# Questions?

**Learn More:** *Property Tax Relief for Homeowners (2021)*

<https://www.lincolnst.edu/publications>