

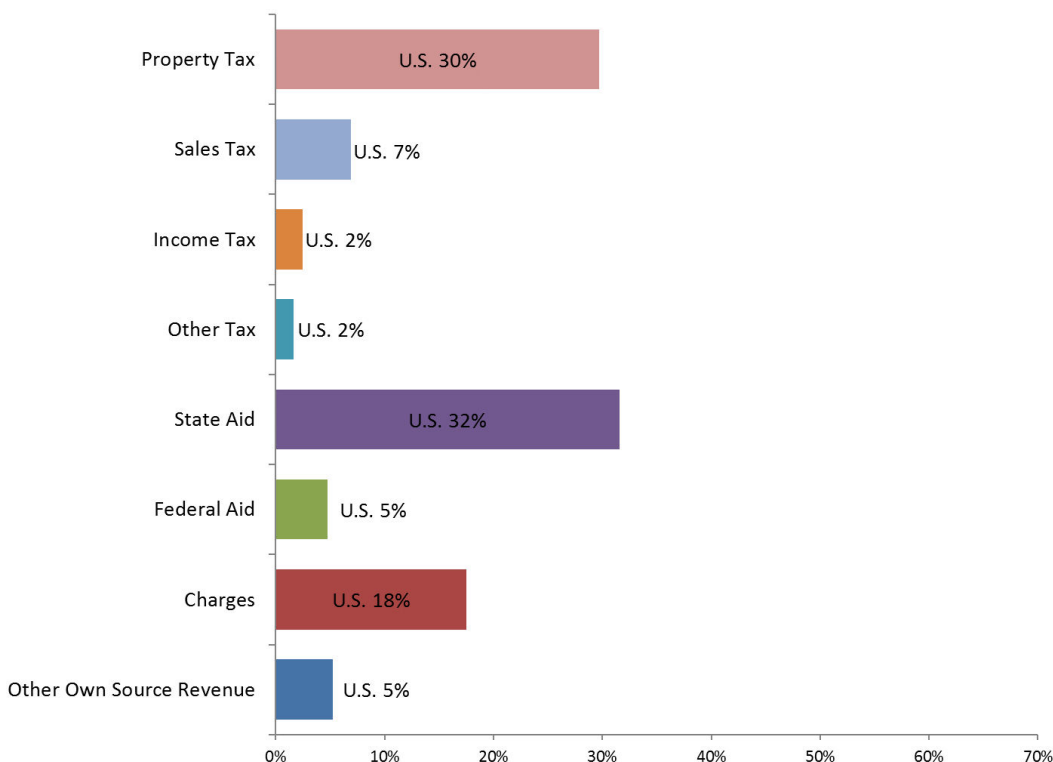
United States

Highlights

Property tax systems across the United States exhibit amazing variety along many dimensions. Additionally, among the 50 states and the District of Columbia, two states stand out for each having two distinct property tax systems. In Illinois, Cook County's property tax structure is distinct from that of the rest of the state; the same is true for New York City and New York State (Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence 2015). Accounting for these special cases, the United States has 53 distinct property tax systems. (The narratives for Illinois and New York briefly describe the two distinct property tax systems within those two states.)

Among the states, the language used to describe features of state and local property tax systems often varies. For example, Indiana calls its levy limit (which caps property tax liability at 1 to 3 percent of assessed value) a circuit breaker; in other states, the term circuit breaker is reserved for residential relief programs under which relief rises as household income falls (Bowman et al. 2009).

Figure U.S.-1
Sources of Local General Revenue, U.S., 2013



Source: U.S. Census via Significant Features of the Property Tax

In New England, local governments rely heavily on the property tax, with local governments in five of the six New England states (Connecticut, Massachusetts, Maine, New Hampshire, Rhode Island, and Vermont) deriving at least half of their general revenue from the property tax. In contrast, local governments in the East South Central region (Alabama, Kentucky, Mississippi, and Tennessee) rely on property taxes for less than a quarter of their general revenues, lower than the U.S. average of 30 percent (figure U.S.-1).

Property Tax Reliance

State and local property tax burden measured as property tax per capita ranged from \$547 in Alabama to \$3,047 in the District of Columbia in 2013. Property tax revenue accounted for about 17 percent of state and local revenue nationally (table U.S.-1); however, the share of revenue varied by state from 7.6 percent in Alabama to 36.1 percent in New Hampshire. The effective tax rate on a median-value owner-occupied home ranged from 0.3 percent in Hawaii to 2.2 percent in New Jersey.

Table U.S.-1
Selected United States Property Tax Statistics, 2013¹

	U.S. Average
Per capita property tax	\$1,441
Property tax percentage of personal income	3.2%
Total property tax as percentage of state-local revenue	16.9%
Median owner-occupied home value ²	176,700
Median real estate taxes paid for owner-occupied home ²	2,107
Effective tax rate, median owner-occupied home	1.2%

Sources: U.S. Census via Significant Features of the Property Tax, American Community Survey

¹ All revenue numbers in this table include the state government as well as local governments.

² The statistics for median owner-occupied home value and median real estate taxes paid for owner-occupied home are five-year average statistics for years 2009–2013.

³ Calculated as the median real estate tax paid on owner-occupied homes as a percent of the median owner-occupied home value.

Administration and Assessment

In the majority of states, assessment is the responsibility primarily of counties (table U.S.-2). However, in other states, assessment may be carried out either centrally by the state, as in Maryland and Montana, or may be a function of municipal governments such as cities and towns, as in Connecticut.

Not every state levies property taxes on 100 percent of a property's market value. In New Mexico, for example, taxable value is defined as 33 1/3 percent of market value; so for a home with a market value of \$300,000, the taxable value would be \$100,000.

Classified property tax systems in 25 states permit local governments to treat particular types, or classes, of property differently. Typically, such systems result in a lower tax on residential property than on other property classes such as commercial and industrial. States achieve classification in one of two ways. Rhode Island is an example of a state in which local governments employ classification by applying different tax rates to four different classes of property (residential, commercial, personal property, and motor vehicles). Nebraska is an example of a state that applies different assessment ratios to three different classes of property.

Limits on Property Taxation

States have imposed legal limits on property taxation since at least the 1850s. In 2013, 46 states and the District of Columbia restricted property taxation either through limits on rates, limits on levies, limits on growth in assessed values, or some combination. In 2013, limits on property tax rates, the oldest and most widespread type of limit, existed in 38 states; while 36 states had limits on property tax levies, and 11 states restricted growth in property values through broad assessment limits (Paquin 2015).

Property Tax Relief and Incentives

Homestead exemptions and property tax credits provide residential property tax relief to homeowners in 47 states, and most states have multiple programs. These exemptions and credits are the most important in the District of Columbia, Florida, Indiana, Louisiana, and South Carolina (Langley 2015b). In 2013, 26 states provided relief to all homeowners, usually for only their primary residence (Langley 2015a).

Circuit breaker property tax relief programs provide income-targeted residential property tax relief that declines as income rises. Many states restrict these programs to elderly homeowners; although in some places, homeowners and renters of all ages may qualify (Bowman et al. 2009). In 2013, 34 states authorized property tax circuit breaker programs.

State property tax incentives for economic development generally fall into five categories: abatement programs, firm-specific incentives, tax increment financing (TIF), enterprise zone programs, and tax-exempt industrial development bonds combined with property tax exemption and sometimes payments in lieu of taxes. The use of business tax incentives has increased markedly in last 50 years. They now exist in all 50 states and D.C. in one form or another (Kenyon, Langley, and Paquin 2012).

Table U.S.-2
Property Tax Features of State Governments, United States,
2013)

Feature	Count for 50 states plus DC
Statewide Classification of Real Property	25
Assessment of property primarily by county	30
Limits on property tax rates or levies	45
Limits on the rate of growth of assessed value	19
Circuit breaker property tax relief program	34

Sources: Significant Features of the Property Tax

Key Property Tax History

The property tax has endured throughout U.S. history as the chief revenue source for local governments. Once a major revenue source for state governments, it is now a miniscule source for most states. The federal government briefly imposed a temporary tax on property a few times, most recently in 1861 to pay for the Civil War (Wallis 2001).

After independence, all states taxed property to some extent. However, beginning in 1790, the federal government assumed state debt; and state reliance on property taxation declined, with a handful of states eliminating property taxes entirely. State property tax reliance increased briefly due to the War of 1812 but afterward continued to decline through the 1830s (Wallis 2001).

State reliance on the property tax remained fairly constant between 1840 and 1900. Local governments, which had continued to rely heavily on property taxes, grew rapidly relative to the national and state governments from 1840 through the beginning of the 20th century (Wallis 2001). It was during this period that states began to enact limits on property taxation, generally capping property tax rates for specific local governments (Paquin 2015). In 1902, the year of the first comprehensive census of governments, the property tax was the most important revenue source for state and local governments in the United States, generating 68 percent of combined state and local revenue and 42 percent of total revenue for all levels of government.

Between 1900 and 1942, the property tax again diminished as a state revenue source as state governments shifted away from the property tax in favor of sales and income taxes. Local governments in this period generated about 70 percent of their revenues from property taxes (Wallis 2001). Tax

protests grew out of the Great Depression and led states to enact additional limits on property taxation, including caps on growth in tax levies (Paquin 2015).

California's passage of Proposition 13 in 1978 led to the most significant property tax limitation movement to date (Paquin 2015). In the five years following its passage, states considered more than 58 ballot measures to limit the property tax. Following California's lead, states began to enact increasingly stringent tax limitations, including, for the first time in history, broad limits on increases in assessments (Youngman 2016, Paquin 2015).

Historically, the property tax has been closely linked to education, providing the largest source of local education funding (Kenyon 2007 and McGuire, Papke, and Reschovsky 2015). Although the property tax, by virtue of its immobile base, has provided a stable funding source for schools, inequities among school districts have been the subject of legal challenges across the United States since the 1960s and have led to massive restructuring of many states' property tax systems.

Recent Developments

In 2013, state and local governments raised \$455 billion through the property tax, which accounted for 29.7 percent of local general revenue and 0.8 percent of state general revenue.

Ten states made notable property tax changes in their 2015 legislative sessions. Five states increased property tax relief. Two states increased the stringency of tax limits on local governments. Nebraska reduced its reliance on the personal property tax when the legislature increased the proportion of personal property exempt from taxation. Montana passed legislation to shorten its reappraisal cycle from six years to two years, and South Dakota authorized townships to levy a new capital improvements property tax to pay for roads and enacted changes to the county levy for highways and bridges (Rafool 2016). In 2015, the Property Tax Independence Act—legislation that would have entirely eliminated school property taxes—was narrowly defeated in the Pennsylvania legislature. The bill, slated for reconsideration in 2016, would replace nearly \$13.7 billion in education revenue from the property tax by increasing sales and income taxes and relying on gaming revenue (Ordway 2016).

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