LINCOLN INSTITUTE
OF LAND POLICY

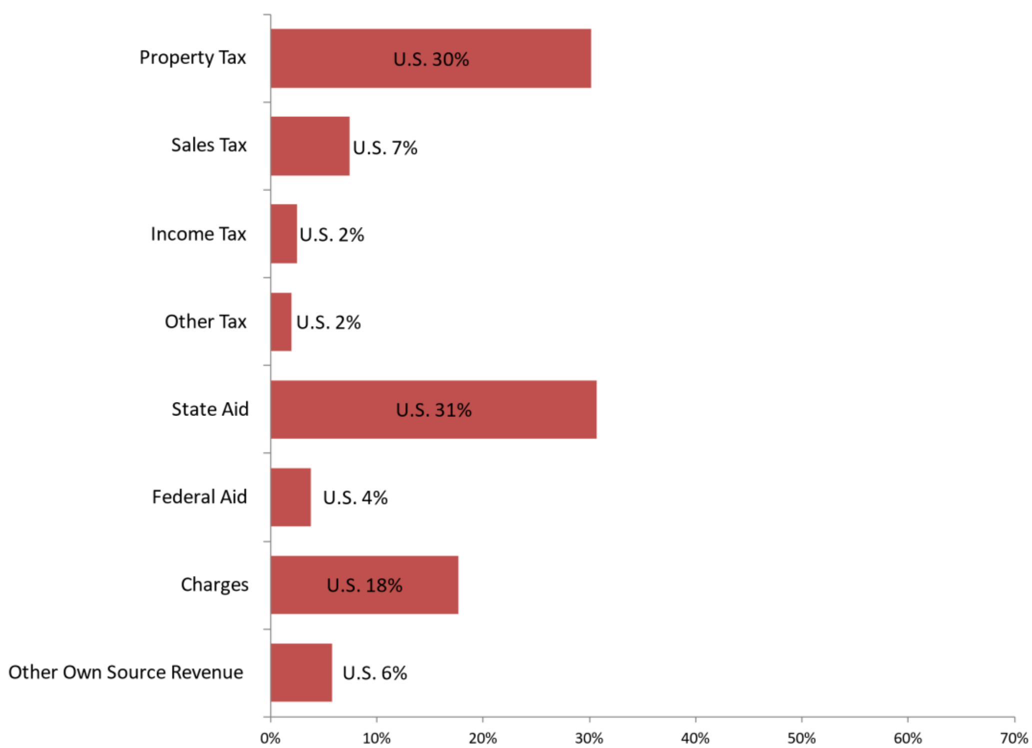
United States

Highlights

Reliance on the property tax varies markedly across the United States. 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, and Rhode Island) 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 one quarter or less of their general revenues, lower than the U.S. average of 30.2 percent (figure U.S.-1; Garcia-Milà, McGuire, and Oates 2017).

Property tax systems across the United States exhibit amazing variety along many dimensions, as described in later sections of this narrative. Additionally, 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 2020, 47).

Figure US-1
Sources of Local General Revenue, U.S., 2019



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

The language used to describe features of state and local property tax systems often varies from state to state. 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).

Property Tax Reliance

State and local property tax burden measured as property tax per capita ranged from $620 in Alabama to $3,969 in the District of Columbia in 2019. 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 percent in Alabama to 36 percent in New Hampshire. The effective tax rate on a median-value owner-occupied home ranged from 0.3 percent in Hawaii to 2.5 percent in New Jersey.

Table US-1
Selected United States Property Tax Statistics, 2019[1]

	U.S. Average
Per capita property tax	$1,758
Property tax percentage of personal income	3.1%
Total property tax as percentage of state-local revenue	16.6%
Median owner-occupied home value[2]	$217,500
Median real estate taxes paid for owner-occupied home[2]	$2,471
Effective tax rate, median owner-occupied home[3]	1.1%

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 2015-2019.

[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 the taxable value of a home with a market value of $300,000 is $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 2018, limits on property tax rates, the oldest and most widespread type of limit, existed in 36 states, and 36 states plus the District of Columbia had limits on property tax levies, while 18 states restricted growth in property values through assessment limits (Paquin 2015; Significant Features of the Property Tax).

Property Tax Relief and Incentives

Homestead exemptions and property tax credits provide residential property tax relief to homeowners in 46 states and the District of Columbia, 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 2015; Significant Feature of the Property Tax). In 2018, 25 states provided relief to all homeowners, usually for only their primary residence (Significant Features of the Property Tax).

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 2019, 31 states and the District of Columbia 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. TIF is the most common economic property tax incentive for business but recent research finds, in many cases, it has failed to promote economic development (Merriman 2018). The use of business tax incentives has increased markedly in the last 50 years. They now exist in all 50 states and DC in one form or another (Kenyon, Langley, and Paquin 2012).

Table US-2
Property Tax Features of State Governments, United States, 2020

Feature	Count for 50 states plus DC
Statewide classification of real property	25
Assessment of property primarily by county	31
Limits on property tax rates or levies	45
Limits on the rate of growth of assessed value	18
Circuit breaker property tax relief program	31

Sources: Significant Features of the Property Tax

Key Property Tax History

The federal government briefly imposed a temporary tax on property a few times, first in 1798 to generate funds for national defense, and most recently in 1861 to pay for the Civil War (Larkin 1988; Wallis 2001). Once a major revenue source for state governments, the property tax is now a miniscule source for most states (Minnesota Center for Fiscal Excellence 2020). However, the property tax has endured throughout U.S. history as the chief revenue source for local governments.

After independence, all states taxed property to some extent. However, when in 1790 the federal government assumed state debt, 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 declined through the 1830s, then remained fairly constant until 1900 (Wallis 2001).

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.

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 (Paquin 2015; Youngman 2016).

Historically, the property tax has been closely linked to education, providing the largest source of local education funding (Kenyon 2007; 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 2018, state and local governments raised $547 billion through the property tax, which accounted for 30.2 percent of local general revenue and 0.8 percent of state general revenue (Significant Features of the Property Tax).

For several years, local governments in many states, but particularly those in the Midwest and the Southeast, have faced a challenge to their property tax assessment practices from the "dark stores" assessment approach. According to that approach, a "big box" store should be valued using the sales comparison approach to value with suitable comparable properties being vacant or "dark stores." Business taxpayers filing appeals using this approach have been able to significantly lower their property tax assessments and thus their property tax bills, thereby reducing local government revenues. In recent sessions, legislatures in Indiana, Kansas, Maine, Michigan, and Wisconsin have considered legislative action to curb dark stores litigation or to provide support to plaintiff local governments. Alabama has contracted a legal firm to help counties defend against litigation (Sell 2019). Walmart first brought a case based on dark stores assessment theory in its home state of Arkansas in 2019, and that case is pending (Besson 2019). Meanwhile, a Wisconsin Supreme Court ruling declined to review an appeals court decision in favor of the local government—this action by the state's highest court was a big win for local governments (League of Wisconsin Municipalities 2021).

In December 2017, the Tax Cuts and Jobs Act was enacted, the first major overhaul of the federal tax code since 1986. This tax act impacted property taxation in two important ways. First, the federal government capped the allowable deduction of state and local income, sales, and property taxes at $10,000 per year. Several states attempted to enact workarounds, most of which were thwarted by new IRS rules, though in 2020 the IRS cleared the way for entity-level workarounds (Walczak 2020). Four states sued the federal government claiming it violated state sovereignty, but a federal judge dismissed the lawsuit in 2019 (Reitmeyer 2019). Then, in 2021, a bipartisan group of U.S. representatives proposed a repeal of the SALT cap, but near the end of the 2021 session a compromise to raise the deduction cap seemed more likely than a full repeal (Davison 2021; McPherson 2021). The second way the tax act impacted federal tax deductibility of property taxes was that the near-doubling of the standard deduction significantly reduced the percentage of federal taxpayers who itemized deductions. Both TCJA changes make it more difficult for state and local governments to raise property taxes (Tannenwald 2018; Tax Policy Center 2018).

The Covid-19 pandemic had an uneven effect on state and local government revenues. Initially, states saw steep declines in tax revenues, but for most governments tax collections fell less than projected and started to recover sooner than expected. By February 2021, 29 states had brought in as much or more tax revenue in the first 12 months of the pandemic as they had in the 12 months prior to the pandemic. Still, tax revenue losses exceeded tax revenue gains in at least 20 states as of February (data were unavailable for Wyoming) and states dependent on oil and tourism (or both) were furthest behind. Alaska tax revenues were down 49.2 percent year over year while Hawaii, North Dakota, Texas, and Nevada were behind 10 percent or more. On the other end of the spectrum, in Idaho, Utah, Colorado, South Carolina, and South Dakota, tax collections were up 7 percent or more compared to the 12 months prior to the pandemic (Rosewicz, Theal, and Fall 2021). In response to concerns about taxpayers' abilities to keep up with property tax payments, state and local governments across the United States adopted one-time policies, most commonly extending property tax due dates or deferring interest and penalties for late payments (Marvin F. Poer and Company 2020).

A bipartisan coalition of state legislatures launched a campaign to stop "corporate tax giveaways" in 2019. The Coalition to Phase Out Corporate Tax Giveaways aims to create a nationwide "Agreement to Phase Out Corporate Giveaways" through state legislation to end inter-state competition for businesses among those states adopting the agreement. The campaign spurred legislative filings in 13 states in 2020 and five states in 2019 (Coalition to Phase Out Corporate Tax Giveaways). In 2021, legislators in 15 states introduced legislation to phase out economic development incentives that use public funds to lure businesses from other states. Utah became the first state to adopt such a law on March 21, 2021.

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