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The Increasing Importance of Assessment Limitations as a Means of Limiting Property Taxes on Homeowners

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Rationale for Homeowner Property Tax Relief

Between 2000 and 2005:

- Housing prices increased on average over 55 percent
- Local property tax collections increased 36 percent
- Personal income increased only 22 percent
- Median household income increased less than 14 percent

2000-2005 Increase in Housing Prices

DC	130.5%		OR	56.9%		AR	30.9%
CA	118.0%		PA	55.0%		GA	29.5%
HI	110.3%		WA	54.3%		AL	28.8%
FL	108.5%		MT	53.3%		CO	27.5%
NV	104.8%		MN	52.4%		OK	27.3%
MD	99.3%		AK	51.3%		UT	27.0%
RI	98.4%		WY	50.2%		NC	26.8%
AZ	90.7%		ID	49.3%		TN	26.7%
NJ	86.2%		NM	43.6%		IA	26.0%
VA	82.6%		IL	42.6%		MS	25.6%
NY	74.6%		ND	38.2%		KS	25.5%
DE	71.0%		WI	37.5%		KY	25.1%
ME	67.0%		WV	36.3%		TX	23.1%
NH	66.8%		MO	34.3%		MI	22.5%
CT	66.0%		LA	34.2%		NE	22.1%
MA	65.1%		SD	32.8%		OH	20.8%
VT	64.8%		SC	31.1%		IN	19.5%

What are assessment limits?

Assessment limits restrict the annual increase in assessed value to a specified percentage of the previous year's assessed value.

Types of assessment limits

- Limits in assessment growth range from zero to 15 percent, or the inflation rate
- Apply to individual parcels, jurisdiction-wide assessments, or state-wide assessments
- Apply to all types of property or only certain classes such as owner-occupied residential
- May be restricted to certain property owners such as elderly and/or low-income
- Most include an acquisition-value rule
- Most exclude new construction

Prevalence of Assessment Limits

- Twenty states and the District of Columbia currently have some form of assessment limitation that applies to all owner-occupied residential property.

- California was among the first states to impose statewide assessment limits and its two percent cap remains the lowest.

Examples

California	2%
Florida, New Mexico, Oregon	4%
Arkansas, Michigan, Oklahoma	5%
New York City	6%
D.C., Maryland, Texas	10%

Key Features of California's Proposition 13

- The maximum rate of property taxation was limited to 1%, excluding preexisting indebtedness
- The assessed value of all property was "rolled back" to its value in 1975-76
- Assessed values can increase with inflation, not to exceed 2% per year
- Change in ownership triggers reassessment at market value

Impacts of Assessment Limits

- Tax Base
- Tax Revenue
- Equity Effects
  - Redistribution of tax burden
  - Horizontal inequities
- Efficiency Effects

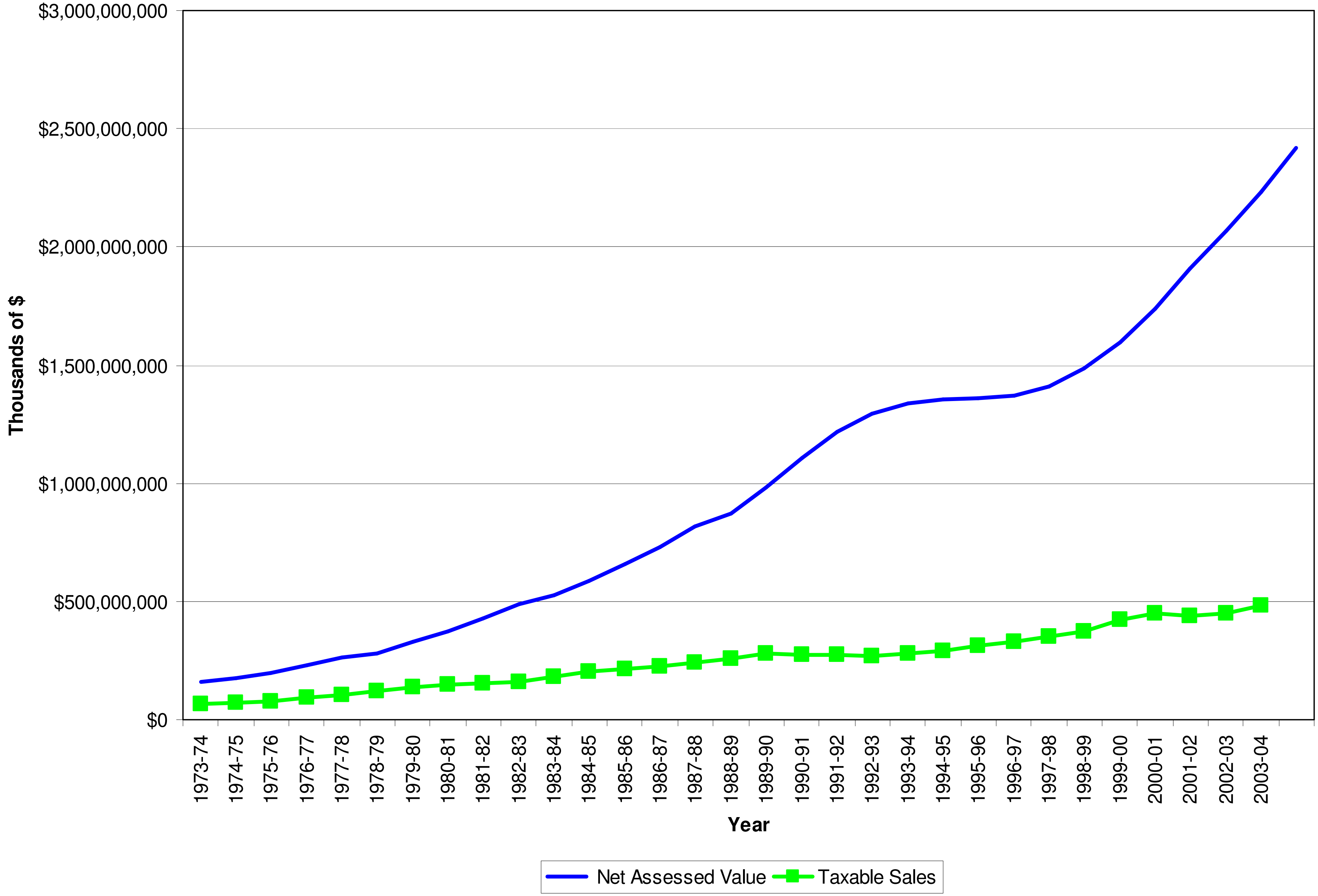
Erosion of the Tax Base

- California's tax base was 44 percent lower in 1992 than it would have been without the two percent assessment limit.
- Texas suffered an estimated $14.2 billion loss in tax base in 2002 due to its ten percent assessment cap.
- The assessment freeze in Muscogee County, Georgia resulted in a 10 percent loss in tax base in 1989 but this declined to under six percent by 1997.

Erosion of the Tax Base

- The differential between market value and assessed value of Florida's homestead properties increased 4700 percent from 1995 to 2004 due to their three percent assessment cap.
- Minnesota experienced an eight percent reduction in the tax base for 2006 as a consequence of their Limited Market Value Law.

California Property and Sales Tax Bases



Impact on Government Revenues

- California counties experienced a 57 percent reduction in property tax revenues in 1978-79.
- Countywide property tax revenues in Florida were an estimated 10.6 percent lower in 2004 than they would have been without the limit.
- Cook County, Illinois has not experienced lower property tax revenues because of the assessment limit.

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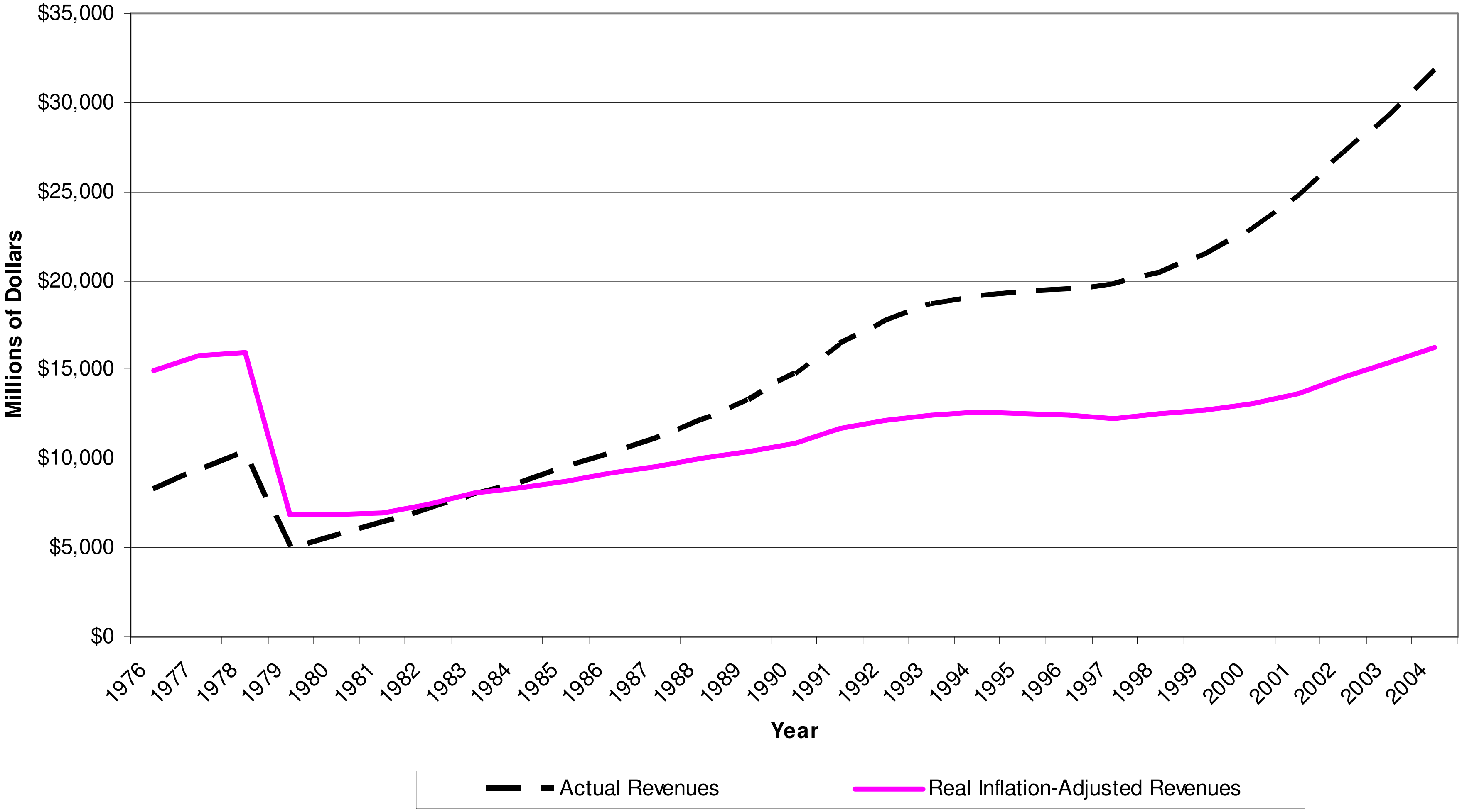
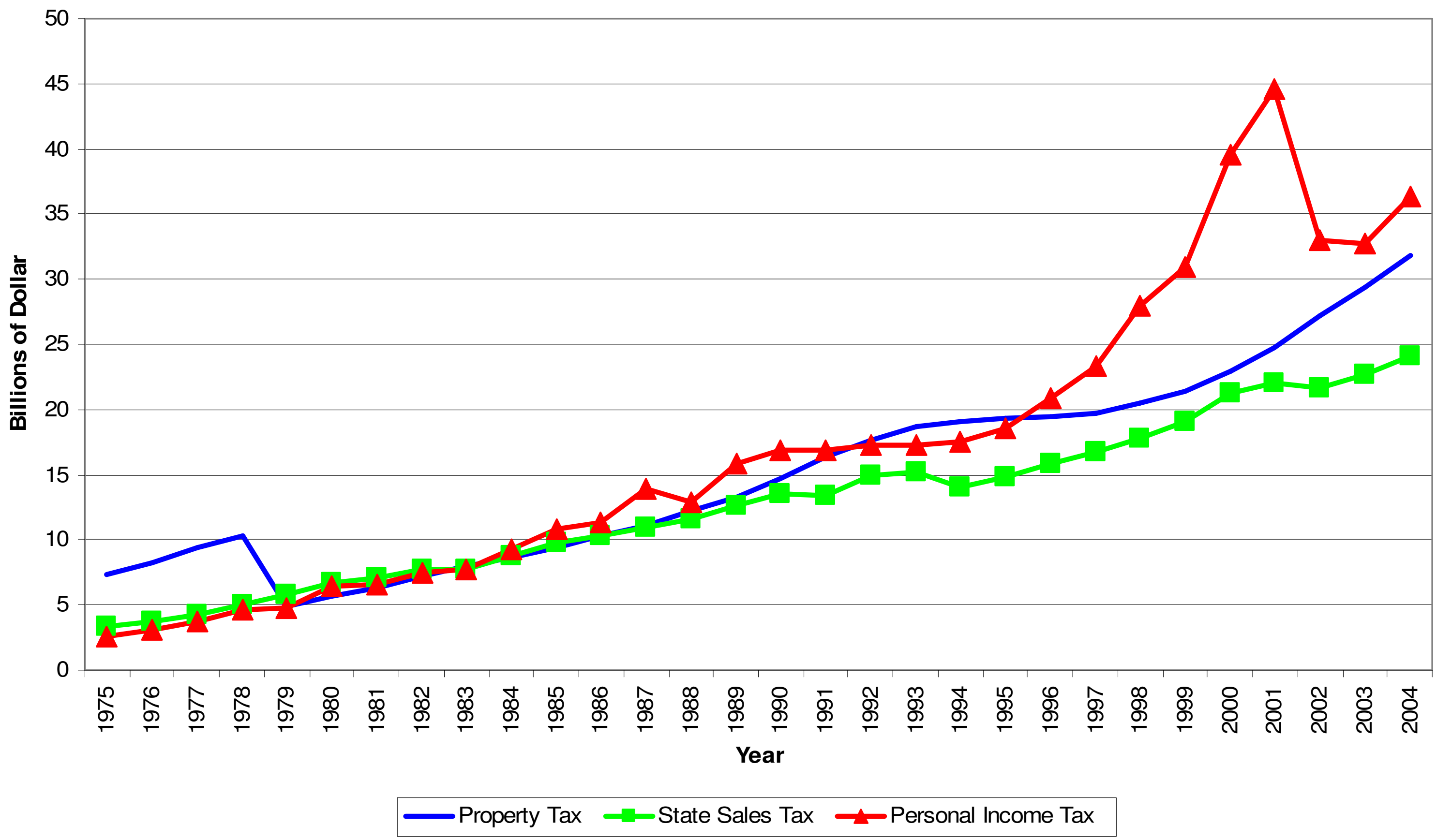
CA Property Tax Revenues



California Tax Revenues



Equity Effects of Assessment Limits: Redistribution of Burden

► *Limits on only some property classes*:
The tax burden will shift to types of property not protected by the assessment limit and within the protected class from high- to low-appreciating properties. If government is allowed to, and does increase the tax rate, then some owners whose assessments are lower due to the limit may still experience an increase in tax liability.

- *Limits on all property*

If an acquisition-value rule applies, then the burden will shift over time to that class of property experiencing the most rapid turnover and/or growth in new construction.

- *Seniors are not necessarily beneficiaries if tax rates rise*
- *The burden is not necessarily shifted from high- to low- income households*

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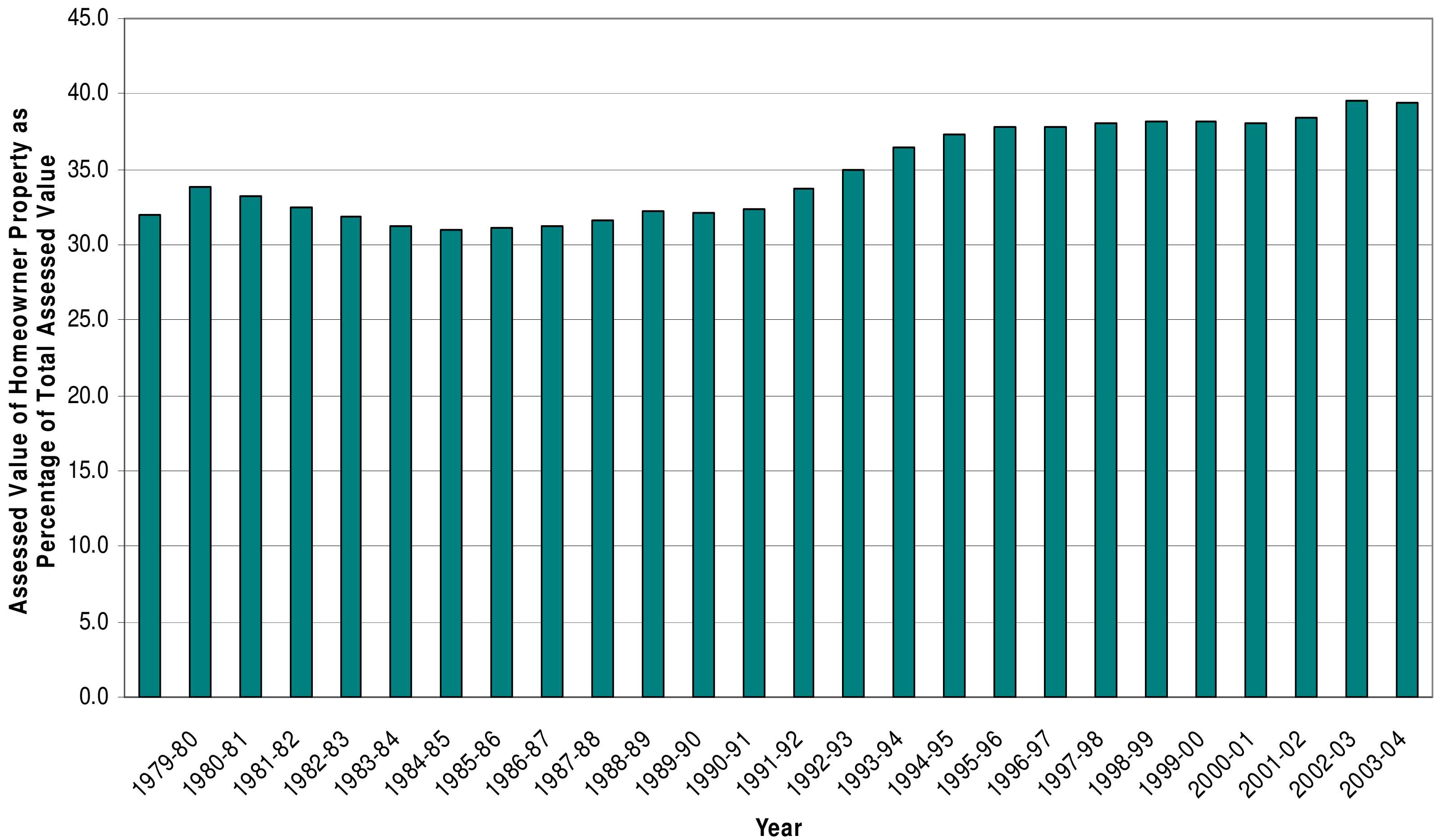
California Homeowner Property Tax Burden



Equity Effects of Assessment Limits:

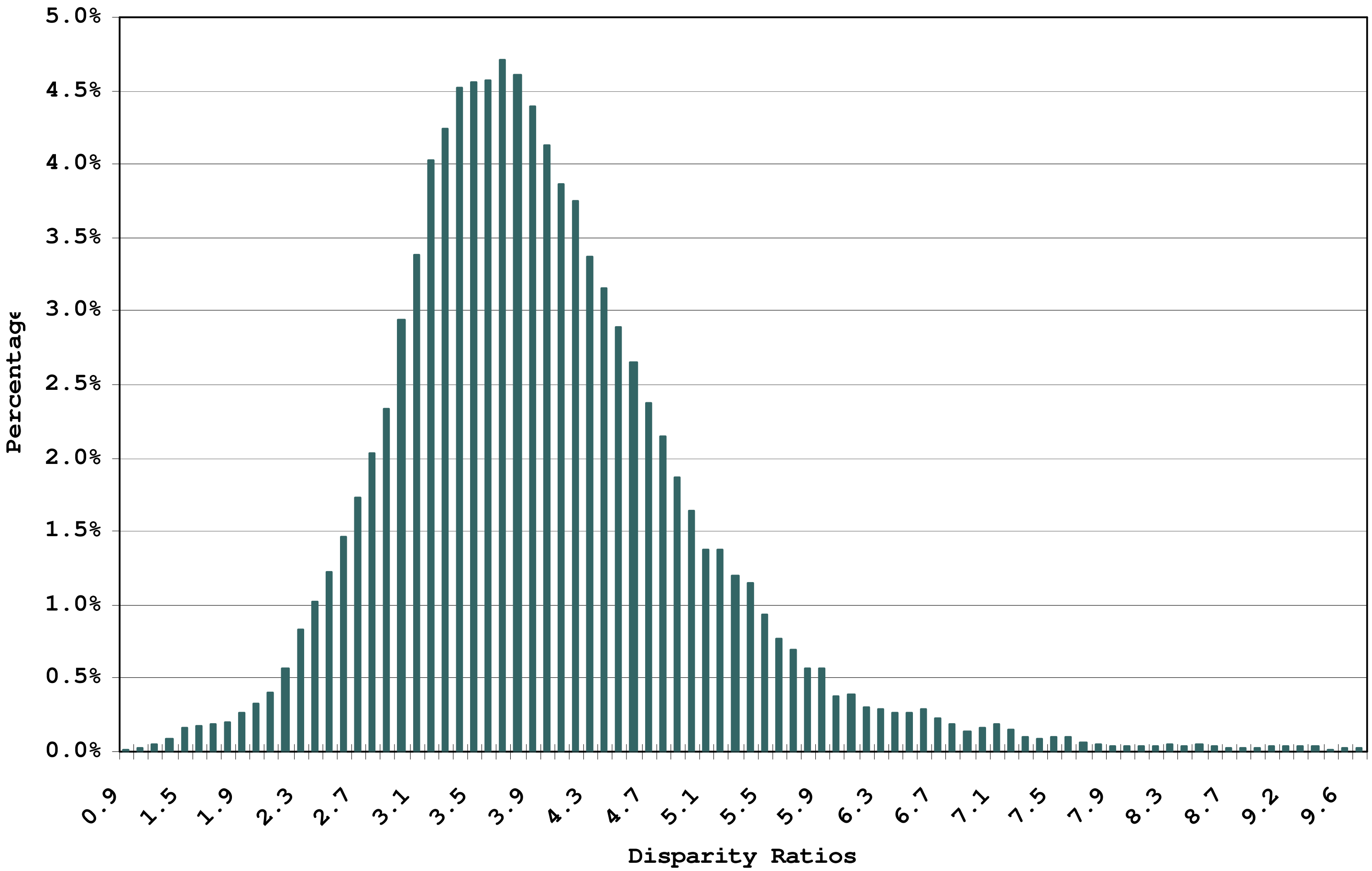
Horizontal Equity or "Equal Treatment of Equals"

Base Year—the year of most recent sale

Disparity Ratio—a measure of the disparity between market and assessed value calculated as the market value of a property divided by its assessed value

Effective Property Tax Rate—the amount of tax paid per dollar of market value (CA estimated statewide average of 0.56 in 1992)

Disparity Ratios for Non-modified Homeowner Properties With 1975 Base Years in Los Angeles County



Efficiency Effects of Assessment Limits:
Mobility Consequences of an Acquisition-Value Based Tax System

- A household's real tax liability decreases while the household remains in a particular dwelling.
- The system decreases household mobility.
- The average time spent per dwelling increases with the rate of appreciation in housing values.
- The system favors infrequent movers at the expense of frequent movers.
- The system favors low-income and senior-citizen homeowners because household mobility increases with income and decreases with age.

Home Ownership Consequences

- The acquisition-value tax system increases the likelihood of home ownership among infrequent movers and decreases the likelihood of ownership among frequent movers.
- Young households as newcomers in the housing market pay relatively high property taxes.
- Young households are also relatively mobile and thus are less likely to become homeowners.
- The supply of smaller, entry-level housing is likely to diminish, raising the cost of home ownership to first-time buyers.

Effects on Business Behavior

- Businesses also face a moving penalty under an acquisition-value based property tax system
- Firms will delay their moves to new, more suitable properties causing inefficiencies
- Firms that move frequently are more likely to rent rather than own the properties they use
- Puts new businesses at a disadvantage relative to established competitors
- Taxes new investments at full market value while failing to tax the increases in value to longtime owners
- Shifts the property tax burden to homeowners
- Results in billions of dollars of revenue loss annually

Alternative Relief Measures

- Circuit breaker tax credits
- Levy limits
- Tax deferral programs
- “Truth in Taxation”/“Full Disclosure” programs

Conclusions

Assessment limits:

- provide tax relief to those whose property value appreciates fastest, resulting in substantial shifts in tax burden within and across property classes.
- lead to horizontal inequities
- impose inefficient moving penalties
- benefit infrequent movers—low income and senior households