



THE CENTER FOR STATE AND LOCAL TAXATION

*Taxing Property Transactions vs.
Taxing Property Ownership*

“What Role for Property Taxes?”

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Taxes on real property transactions are levied on some measure of the value of the property, usually the sales price, and collected at the time a deed is legally recorded.



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Taxes on real property transactions include:

- property transfer tax
- real estate transfer tax
- real estate excise tax
- deed transfer tax
- documentary stamp tax
- conveyance tax
- mortgage transfer or recordation tax



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Outline:

- Features
- Distributional (equity) effects
- Efficiency (mobility) effects
- Revenue potential
- Revenue stability
- An alternative to the property tax?



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Features: Tax rates

- Range from 0.01% state rate in Colorado to as high as 4% in some parts of Colorado and Pennsylvania.
- Less than 1% in all or parts of 28 states
- Greater than 1% in 7 states
- Progressive rates structure (depends on value) in 6 states
- Rates vary across classes of property in 3 states



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Features: Tax base

- Entire purchase price of all real estate
- Certain classes of real estate
- Sales price exclusive of any mortgage or liens attached to the property



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Features: Exemptions

- Exempt value ranging from \$100 to \$50,000 in some Maryland counties
- Transfers between husband & wife, parent & child, grandparent & grandchild
- Transfers to a creditor to secure a debt
- Transfers to or between federal, state, or local government
- Transfers to a corporation, partnership, or LLC at the time of formation, if no gain or loss is recognized



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Features: Tax authority

- In 19 states a transfer tax is imposed at the state level only
- In 16 states at least some localities may impose a tax in addition to the state transfer tax
- In California, Ohio, and Oregon, transfer taxes are imposed only at the local level



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Features: Revenue use

- land conservation
- environmental protection
- state park programs
- affordable housing
- school aid



Equity

Who Bears the burden of a transfer tax?

- Depends upon relative demand and supply elasticities
- If supply is relatively inelastic, sellers will bear most of the burden
- Benjamin, Coulson, and Yang (1993) found more than full capitalization of a transfer tax increase in Philadelphia



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Equity: Ability to pay

The distribution of the tax burden relative to income depends on:

- the distribution of land and property ownership
- differences in mobility
- tax rates
- tax base definitions and exemptions

The National Association of Realtors (2003) examine data from the 2001 American Housing Survey and conclude that the transfer tax burden is regressive.



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Efficiency

- excess burden increases with the square of the tax rate and is greater the more price elastic are demand and supply
- mobility or 'lock-in' effect
- impacts on economic activity/other tax revenue
- border effects and urban sprawl
- impacts of progressive rate structure
- exemption of new home sales



Evidence of Mobility Effects

- transfer tax is extreme version of acquisition-value property tax and will have larger negative impact on mobility
- O'Sullivan, Sexton, and Sheffrin (1995), Ferreira (2004), and Wasi and White (2005), find evidence of mobility effect in California.
- Sjoquist and Pandey (2001) find no evidence of mobility effect in Georgia.



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- A revenue neutral switch from a market value based property tax to a transfer tax would require a tax rate equal to the market value tax times the equilibrium time per dwelling
- The higher tax rate would lead to a higher moving penalty and larger excess burden



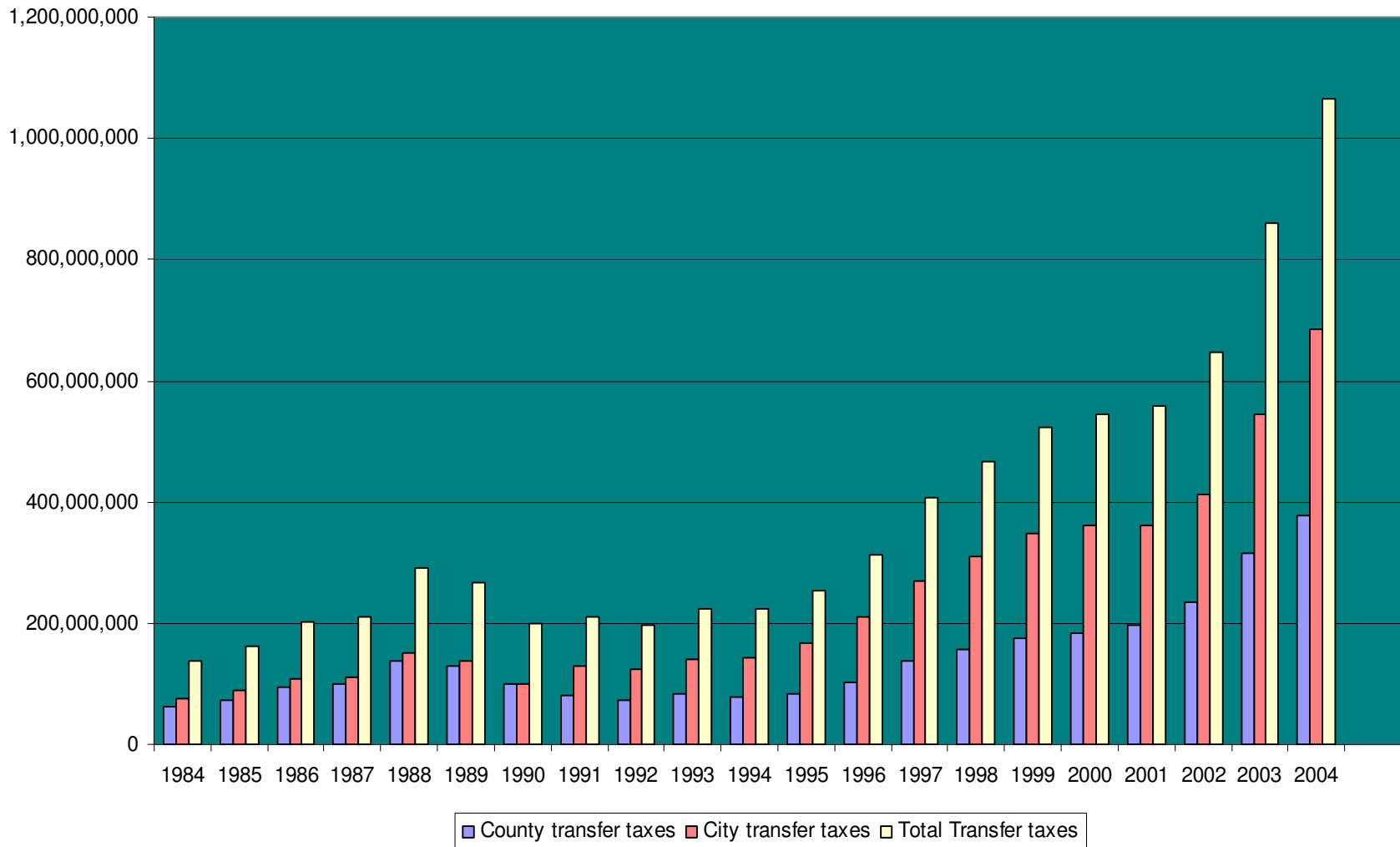
Revenue Potential

- \$7 billion in state tax revenue in FY 2004 (Census Bureau) less than 2% of total state tax revenue
- 2004 state tax revenues per capita less than \$20 in 15 states (lowest \$.05 in Georgia)
- 2004 state tax revenues per capita greater than \$100 in 4 states and D.C. (highest \$485.20 in D.C.)



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California City & County Transfer Taxes





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Home Sales and Prices: Recent Experience

Region	Existing Home Sales		Median Home Prices	
	% change 2005-2006	% change 2006(IV)- 2007(IV)	% change 2005-2006	% change 2006(IV)- 2007(IV)
U.S.	-8.45%	-20.85%	1.32%	-5.84%
Northeast	-7.10%	-18.21%	-0.46%	-4.84%
Midwest	-6.61%	-18.14%	-2.08%	-3.16%
South	-5.14%	-19.90%	1.44%	-5.40%
West	-16.76%	-27.72%	3.00%	-8.70%

Source: National Association of Realtors

<http://www.realtor.org/Research.nsf/Pages/MetroPrice>



Revenue Stability

Transfer tax revenues depend upon:

- the tax rate
- the types of properties subject to tax
- the number of properties sold
- the sales prices

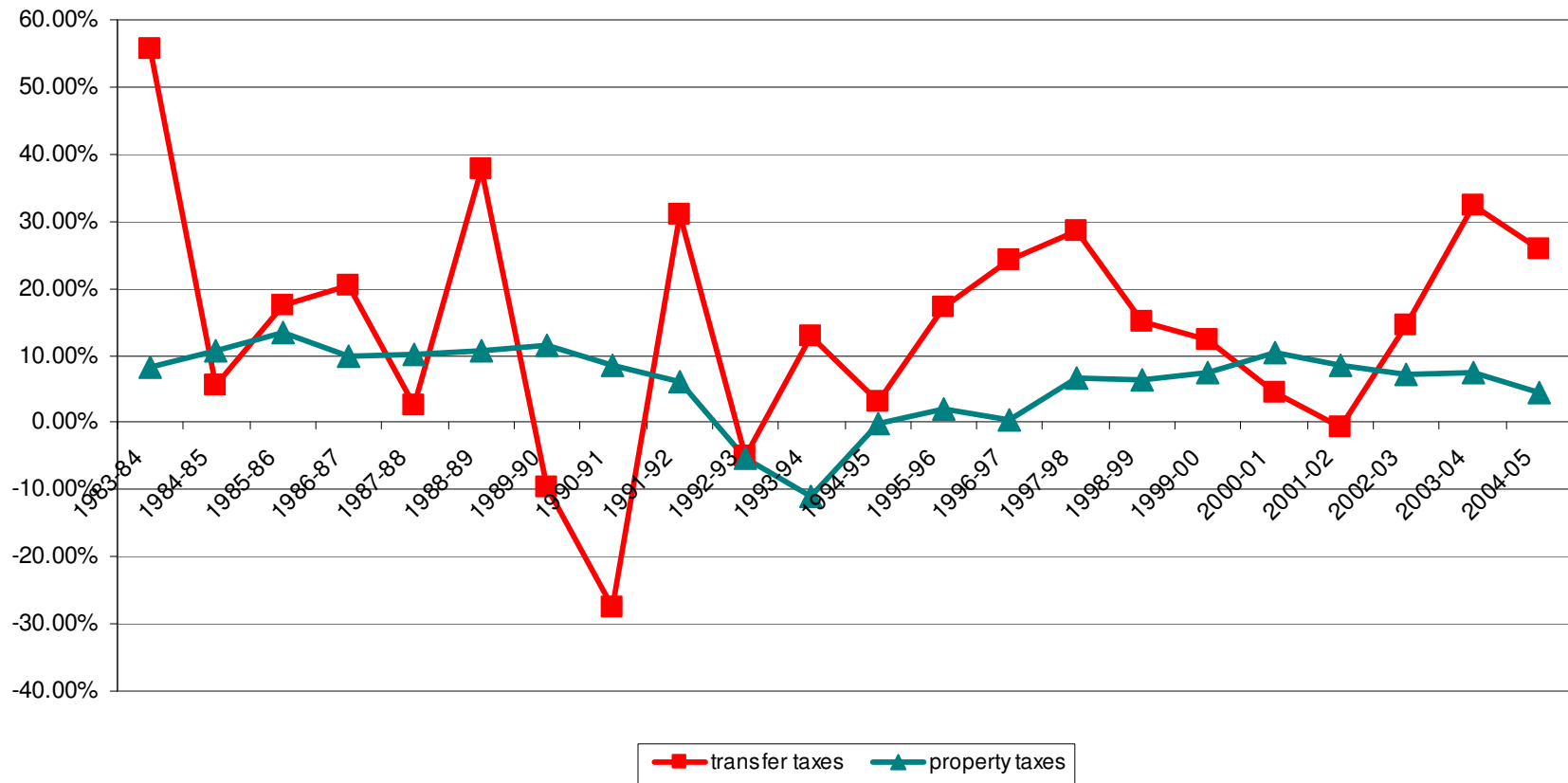
Transfer tax revenues

- are more volatile than property tax revenues
- are especially volatile in smaller jurisdictions
- are very difficult to predict



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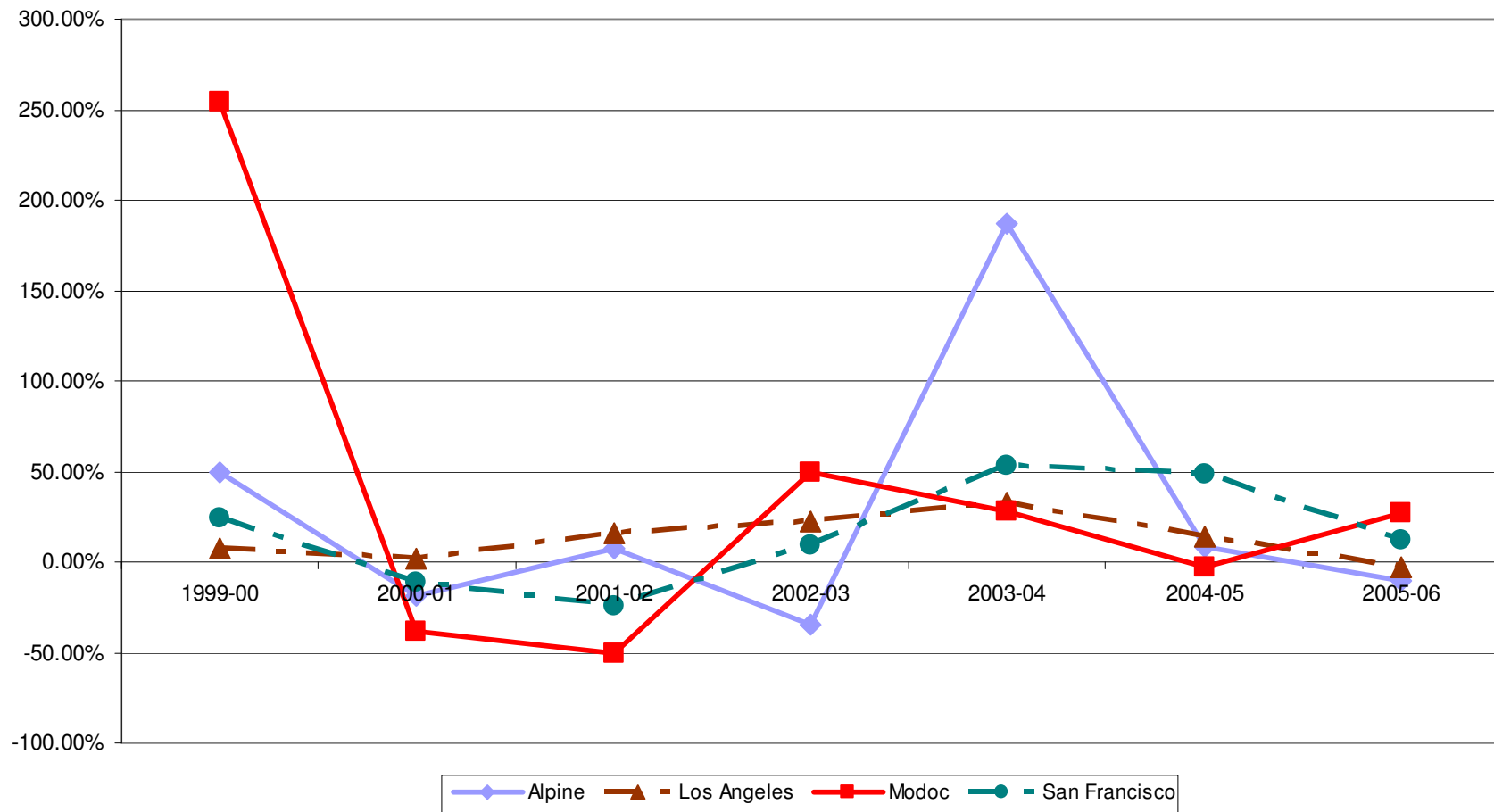
Annual growth in California city transfer taxes and property taxes





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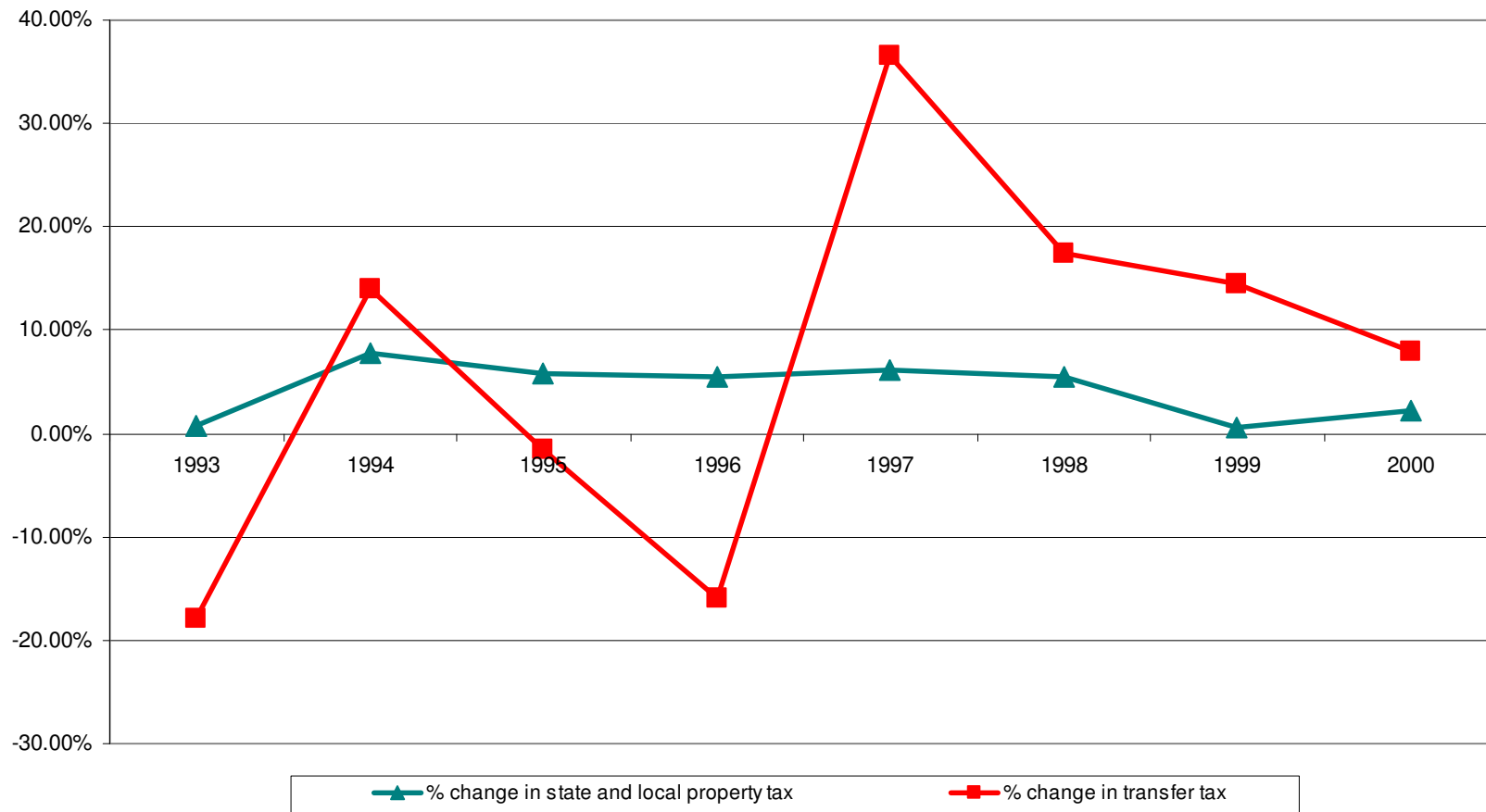
Annual Percentage Change in Transfer Tax Revenues: Select Counties





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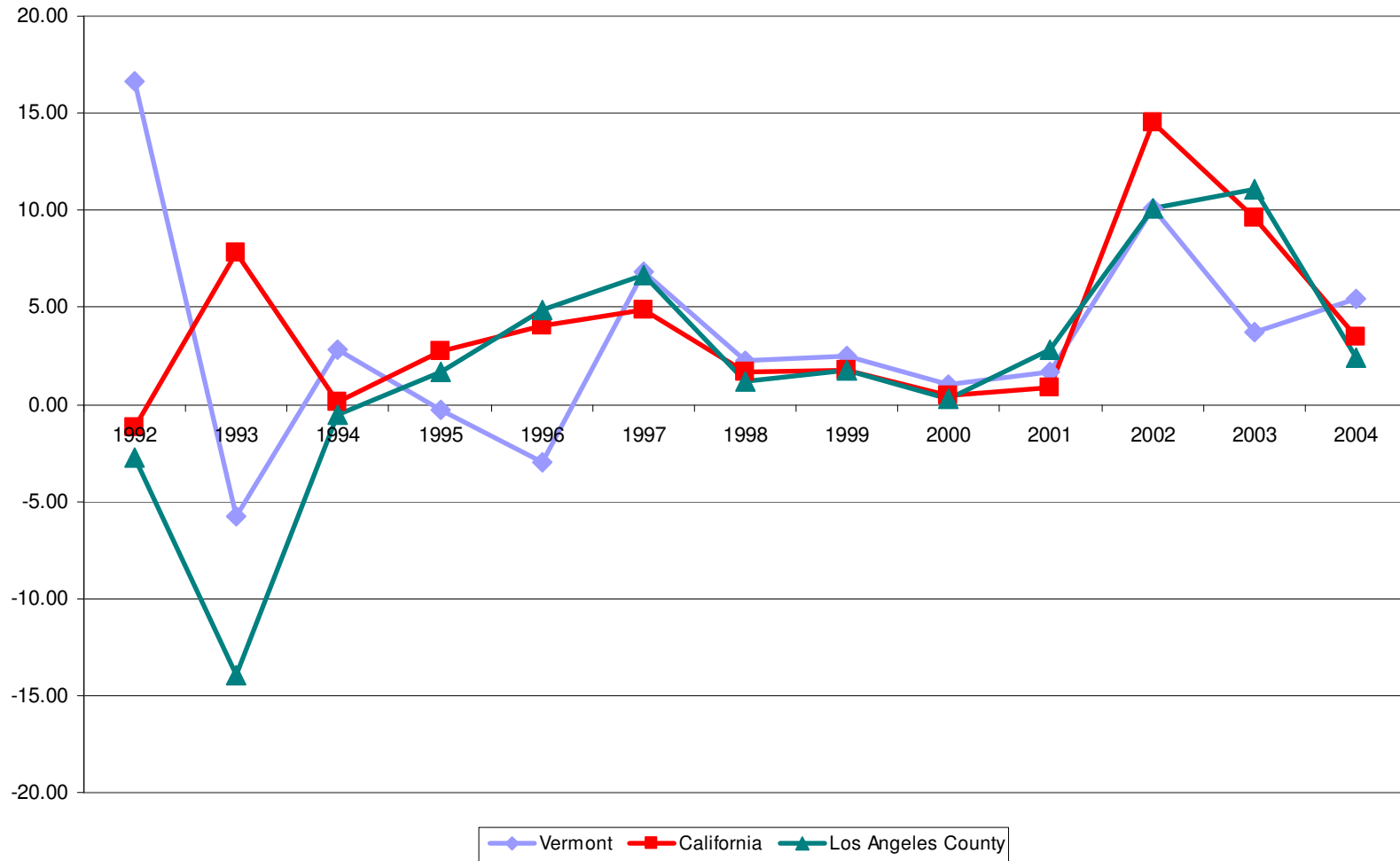
Percentage Change in Vermont Transfer Tax and State and Local Property Tax





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Income Elasticity of Property Transfer Tax Revenue





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An alternative to the property tax?

- Transfer taxes are far more volatile than the property tax
- The tax rate would have to be extremely high to generate the same revenue: A 1 percent transaction tax in Texas would only allow a property tax rate reduction of \$0.06 per \$100. The transfer tax rate in some California cities would have to be 15 times higher to replace their share of property tax revenue.
- The high rate would result in a much greater mobility effect, moving tax, and excess burden.