The Property Tax: Not Just Local

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Property Taxes: Answer to State Fiscal Stress?

- Sales and income taxes are slow to recover from the recession
- Might states be tempted to levy a property tax to add more stability to their revenue stream
State Property Taxes Since Colonial Times

- Used in all colonies

- By the Revolutionary War all the colonies imposed some form of property tax but also had other sources of revenues

- With restrictions imposed by the U.S. Constitution, states had to rely more on property taxes
Throughout most of the 1800s, the property tax was the main state tax used to finance major infrastructure projects.

To address some of the inequities of the property tax, by the end of the century, 33 of the 45 states had adopted “uniformity” clauses in their constitutions.
Uniformity clauses require that all property be treated equally within a taxing jurisdiction.

Difficult for states to use property tax particularly for infrastructure.

Use of property tax began to migrate to local governments to meet the infrastructure pressures between 1870s and 1910s.
Declining in Importance, but Still Around

Shares of State Revenue—Property, Income and Sales Taxes

Source: U.S. Department of Commerce, *Historical Statistics of the United States (1975)* and data provided by the Census of Governments
According to the U.S. Bureau of the Census 36 states reported property tax collections in 2010.

The importance of property tax revenues varies
- In 29 states, property taxes are less than 1%
- In 6 states, it accounts for more than 10 percent
Property Tax Collections According to Census

Includes:

- Taxes imposed on ownership of property
- Measured by value
- Attributed to jurisdiction that perform at least two of the activities: impose, collect, and disperse
- Three types of property taxes
  - General property taxes
  - Special property taxes, levied on selected properties
  - Taxes based on income produced by property
State Property Tax Base

- Some states impose the tax on property that local governments do not tax
- Others impose a tax on properties that are not part of any incorporated taxing jurisdiction
- Several states impose the property tax on properties held by selected industries such as airlines, railroads, telecommunications, and extractive industries
As a Result of Definition, Some Quirky Results

- 36 states having property tax collections when only 26 states impose a property tax

- Reporting of specialty property taxes with some imposed in lieu of property taxes
  - California’s Vehicle License Fee
  - Arizona’s Vehicle License Tax

- Narrowly defined tax base taxes
  - New Mexico’s tax on cooper mines

- Overstates the use of property tax
Uses of State Property Taxes

Dedicated to
- Education in 10 states
- Debt service or infrastructure in 6 states
- Redistribute to local governments in 4 states
- Unique uses in 4 states
- General fund in 6 states
Local or State Taxes?

- State mandates to school districts to impose a local property tax levy
- These taxes are mandated by the state but levied, collected and dispersed at the local level
- Census reports them as local not as state taxes
- However, several property tax experts consider these *implicit* state property taxes
- If included as state taxes, state property taxes would be much greater share of taxes
State cutbacks shift state funding to local property taxes

*Implicit* and *non-transparent*

Florida reduced its share of school funding from 56% to 36% with local school districts paying 64% instead of 44%

- If the share of funding now picked up by the school districts were considered state property taxes, Florida’s property tax share of taxes would have been 9% instead of 0%
Not only happening in School Funding

- Minnesota dropped its support of homeowner property tax relief shifting the burden to the local governments and homeowners
  - State savings of $260 million shifted to property tax would increase the state’s property tax share of taxes to 6% from 4%
Conclusions

- When considering the property tax, it is very difficult to generalize
  - There has always been great diversity

- Explicitly imposed property taxes get attributed to states, but implicitly imposed taxes are underreported

- Be cautious of what is included in the Census data on state property taxes

- State encroachment on the single most important tax imposed by local governments would, however, present a potential threat to the fiscal viability of local governments facing their own challenges in efforts to recover from the Great Recession
Any number of aspects of state property taxes are ripe for study

- How do states provide tax relief under the uniformity clause
- Would the addition of a state property tax improve stability of revenues
- If the states impose a property tax, what would be the consequences to local governments which rely so heavily on the property tax