

# The Property Tax: Not Just Local

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# Property Taxes: Answer to State Fiscal Stress?

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- 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

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- 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

# Major Tax in 19<sup>th</sup> Century

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- 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 Clause

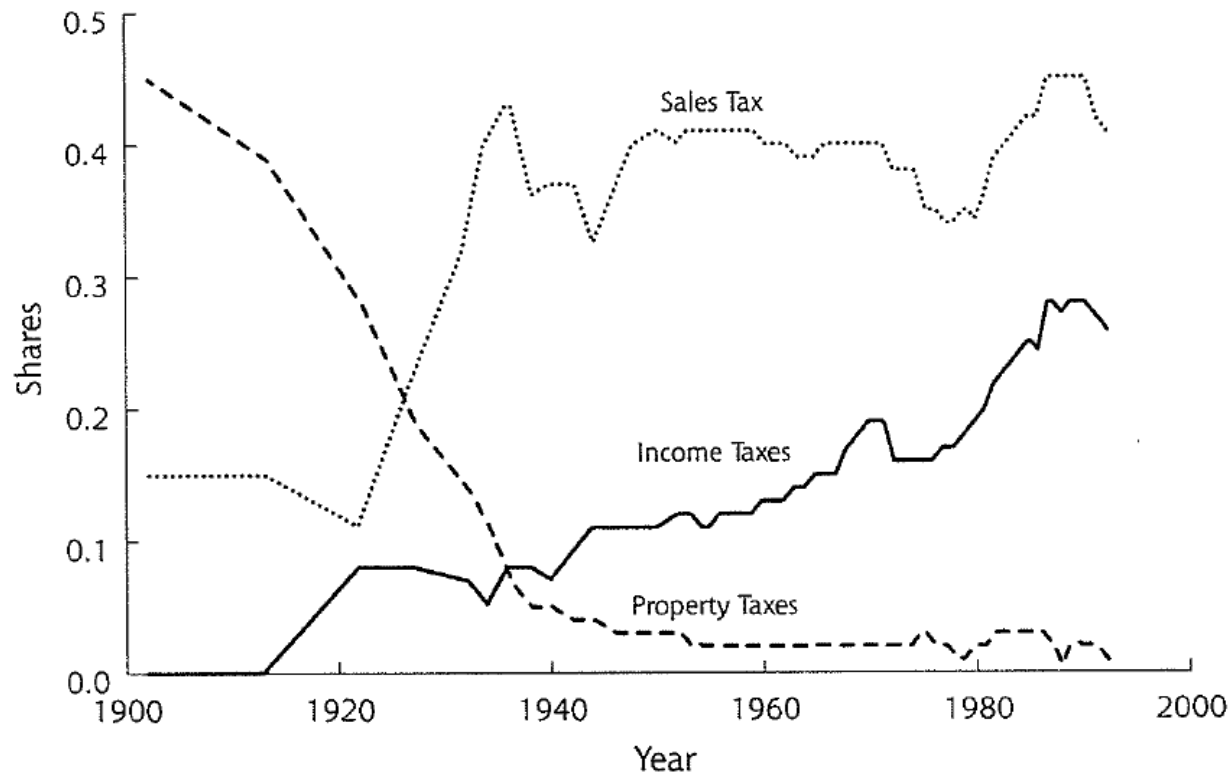
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- Uniformity clauses require that all property be treated equally within a taxing jurisdiction
- Difficult for states to use property tax particularly for infrastructure
- Use of property tax began to migrate to local governments to meet the infrastructure pressures between 1870s and 1910s

# Declining in Importance, but Still Around

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**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

# State Property Taxes Today

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- 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  
Michigan, Montana, Washington, Wyoming, New Hampshire, Vermont.

# Property Tax Collections According to Census

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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

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- 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

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- 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

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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?

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- 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

# Less Transparent Property Taxes

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- 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 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

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- 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

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- 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

# Future Studies

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- 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