

CONTROLLING PROPERTY TAXES THROUGH PROVEN LEGISLATION

Assessment Limits versus Revenue Limits



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This paper compares and contrasts two popular methods for controlling property taxes: limiting assessments and limiting local government revenue. Limiting assessments requires a constitutional amendment as it removes uniformity from property taxation. In addition, it has been proven to create unintended negative consequences without achieving its goal for all but a limited group of taxpayers. The other method, limiting revenue, has proven to be an effective means of controlling property tax growth for all taxpayers. It retains the constitutional provision of uniformity in taxation and can be accomplished statutorily.

A common misconception regarding property tax relief is that assessment caps lower or limit the growth in property tax. They do neither. They simply shift the burden and institutionalize unfair and unequal treatment among owners of comparable properties. There is significant scientific and anecdotal evidence of the failure of these policies. Some of the problems:

Assessment caps tend to be anti-competitive by taxing new entrants more heavily than current owners.¹

The benefit accrues to those owners of rapidly appreciating property and shifts the burden to those owning slower appreciating property (and owners of property decreasing in value).²

Provides the largest tax break to upper-income homeowners and provide little or no tax relief to low-income homeowners.³ In fact assessment caps tend to be regressive.⁴

Eliminates “uniformity” from the property tax system. That is, huge disparities in effective taxes are created among comparable property owners. It is inevitably and irrefutably unfair and inequitable.⁵

Millage rates rise and new fees are born to make up for the revenue lost through artificial manipulation of individually assessed property values and the total tax digest.

Unequal taxation distorts the decision making process of buyers and sellers and thereby reduces economic growth as transactions don't occur or occur at reduced prices.⁶

While these laws limit how fast individually assessed values can rise in appreciating markets, the same laws keep assessments from falling and can even result in modest tax increases when market values decline.⁷

Both methods have been enacted in various states during the past 30 years in an attempt to control the growth of property taxes. Florida is a prime example of the failure of assessment capping and acquisition value assessment as methods of limiting property tax growth. Kentucky and Ohio provide examples of successes in limiting property taxes by controlling revenue growth. We believe that legislation similar to that enacted in these states is the answer to real substantive property tax reform that will benefit all Georgians without the unintended consequence of tax inequity resulting from the loss of the constitutional guarantee of uniformity.

Property tax is a mathematical formula involving three numbers: the total dollar value of the tax digest, the millage rate, and the property tax revenue needed to support the approved budget ($\text{tax digest} \times \text{millage rate} = \text{property tax revenue}$). It's clear that by artificially limiting the tax digest one only has to increase the millage rate to achieve the desired result for the revenue number. Typically revenues are estimated, budgets are set on the expected revenues and then based on the total tax digest the millage rates are calculated to meet the property tax revenue needed to fund the budget. Therefore, it is also clear that the only meaningful way to control property taxes is to place a limit on revenue growth, which by mathematical necessity will limit the millage rate.

Legislation similar to Kentucky's House Bill 44, enacted in 1979 has a required property tax rate rollback provision that we believe would limit the growth of Georgia property taxes to an acceptable level. During the period of 1978 to 1992, **when state-wide assessed property value in Kentucky increased by 273%, state-wide property tax revenue only increased by 60%, which was the 4% maximum allowed annual increase compounded over the 14-year period.**⁸



During the 1990s, a Kentucky Supreme Court school funding decision required exceptions to the original HB 44 limitation, which allowed annual growth greater than 4% to guarantee equalized educational funding. In Ohio, HB 920 was passed by the legislature in 1978 to not allow property tax revenue increases above the level of the prior year without a voted levy increase. The Ohio limitation has proven to be too restrictive, creating school funding issues that continue today. Proposition 2 ½ was the Massachusetts answer to tax reform enacted in 1980 and has limited property taxes and placed far more control over the growth in property taxes in the hands of the voters in each community. Prop 2 ½ achieves its goal by placing constraints on the total amount of property tax revenue that can be raised (levy ceiling) and by how much the revenue can be increased year over year (levy limit). As the name indicates Prop 2 ½ sets limits of 2.5% on the levy ceiling and the levy limit. The levy limit sets the current year property tax revenue at no more than 2.5% (plus new growth) than the previous year levy limit. We believe 2.5% may be a bit draconian and we don't recommend a one size fits all throughout the state. Perhaps a calculation unique to each county using the Consumer Price Index (CPI) plus a factor using population growth would be a more reasonable limit.

The table below uses U.S. Census data from <http://www.census.gov/govs/www/estimate.html> to measure the relative success of property tax limitation provisions enacted in the states mentioned above. As can be seen in the table, **Florida's property taxes increased substantially, even with the Save Our Homes assessment cap that went into effect in 1995. Save Our Homes is similar to the proposed Georgia HR 1.**

Property Tax Increases: USA Total and Six States Compared to the CPI

Property Tax	USA Total	California	Florida	Georgia	Kentucky	Mass	Ohio	CPI
Revenue (millions)								
1997	218,827	23,201	12,330	4,946	1,528	6,613	8,357	160.5
2006	359,109	37,225	23,045	8,946	2,421	10,829	12,596	201.6
Raw Tax Increases	64%	60%	87%	81%	58%	64%	51%	26%
Population (000's)								
1990 Census	248,710	29,760	12,938	6,478	3,685	6,016	10,847	130.7
1997 Estimated	271,608	32,638	15,069	7,674	3,935	6,249	11,201	160.5
2000 Census	281,422	33,871	15,982	8,186	4,042	6,349	11,353	172.2
2006 Estimated	299,398	36,458	18,090	9,364	4,206	6,437	11,478	201.6
1990-2000 Increase	13%	14%	24%	26%	10%	6%	5%	32%
1997-2006 Increase	10%	12%	20%	22%	7%	3%	2%	26%
Per Capita Taxes								
1997	805.67	710.87	818.25	644.55	388.32	1,058.23	746.08	160.5
2006	1,199.44	1,021.04	1,273.91	955.36	575.61	1,682.31	1,097.40	201.6
Per Capita Increases	49%	44%	56%	48%	48%	59%	47%	26%

The data above demonstrate that assessment limitations and acquisition-based assessment are not effective means for controlling the growth of property taxes. **As shown by a recent scientific research study using Florida data, assessment capping introduces inequity among the taxpayers it is intended to help without controlling property tax growth.⁹ On the other hand, capping property tax revenue growth does effectively limit property tax growth without creating inequity among taxpayers, while giving voters the control over exceeding the statutorily established revenue growth limit.**



The table below provides an easy comparison between two of the more popular property tax reform methods used around the county. All conclusions can be supported with anecdotal and/or scientific data.

Characteristics of Property Tax Reform Alternatives	Assessment Caps	Revenue Caps
leaves uniformity in tax code	N	Y
requires reassessment to sale price upon transfer	Y	N
tax rates/revenues limited statutorily	N	Y
tax rate/revenue increases greater than % allowed require voter referendum	N	Y
reduces horizontal equity (fairness) among owners of comparable property	Y	N
greatest benefit to those with fastest appreciating property	Y	N
shifts burden to slowest appreciating, newly constructed & recently purchased property	Y	N
affects buy/sell decisions	Y	N
proven to control growth in property tax revenues	N	Y

References

¹ California Tax Reform Association. 2008, April. *California commercial property tax study: Statewide study finds huge disparities in property taxes paid for similar properties; highlights need to reform system. p.49, Appendix IV.* www.CalTaxReform.org (accessed February 18, 2008)

² Haveman, M. & Sexton, Terri A. 2008. *Property tax assessment limits: Lessons from thirty years of experience, p. 22. Policy Focus Report- Lincoln Institute of Land Policy.*

³ Institute on Taxation and Economic Policy, Policy Brief #26, 2005. *Capping assessed valuation growth: A primer.* www.itepnet.org (accessed January 6, 2008)

⁴ The Perryman Group. 2008, March. *The impact of potential restraints on local government activity: (Appraisal caps, expenditure limits and revenue limits) on the economy of Texas.* www.perrymangroup.com (accessed February 18, 2008)

⁵ Haveman, M. & Sexton, Terri A. 2008. *Property tax assessment limits: Lessons from thirty years of experience, p. 26. Policy Focus Report- Lincoln Institute of Land Policy.*

⁶ Slade, D. 2008, January 14. *2006 Tax reform has some buyers seeing red, p.1A. The Post and Courier, Charleston, SC.* www.Charleston.net (accessed February 16, 2008).

⁷ Wortley, J. 2008. *Michigan’s experience with property tax and assessment limitation. Paper presented at Towards a Better Understanding of Property Taxes and Proposed Policies Conference. September 11, 2008. Atlanta.*

⁸ Coffman, J.F. 1993. House Bill 44: Kentucky’s version of property tax limitation. *Proceedings of the 59th annual conference of the International Association of Assessing Officers.* Chicago 59: 108-115.

⁹ Moore, J.W. 2008. *Evaluating property tax equity implications of capping assessment increases: Evidence from Florida.* <http://www.jwaynemoore.net> (accessed January 5, 2009).