



Atlanta property taxes: Making tweaks

AJC special investigation: Property tax meltdown

By Anthony Flint
For the AJC

7:00 a.m. Sunday, December 26, 2010

Day 8 of an 8-day series

The housing crisis, the recession, soaring health care and pension costs and tax fatigue have all spelled big trouble for state and local governments.

The property tax is the main source of revenue for local governments in the U.S., but the property tax is particularly unloved. It is a highly visible tax, paid a few times a year in large amounts, and is based on the value of property, irrespective of income.

No surprise then, that many states and metropolitan regions would seek alternatives to the property tax — user fees, impact fees, local sales and income taxes, and an array of other instruments. Meanwhile, property tax caps, such as the one recently put in place in New Jersey, allow politicians to respond to the cry for property tax relief.

Here's a contrary idea, however. The property tax is basically sound. It works the way it was intended, and its transparency reflects the best of local democracy. We get the bill, we pay the tax, and we see how the revenue is spent in local schools, and in the basic services that local government provides. By contrast, few taxpayers have any idea of the amount they spend annually on sales taxes, or see how the income taxes withheld from paychecks are actually spent.

The property tax also stands up well compared with alternatives, funding by state governments to cities and towns, for example, which can be notoriously unreliable, or local sales and income taxes, which vary dramatically with economic activity and can promote suburban growth as municipalities compete for revenue from commercial development.

This is not to say the property tax is perfect. It can be tweaked and managed in useful ways, however.

Circuit breakers

State and local governments can provide targeted property tax relief based on ability to pay. Property tax circuit breakers — aimed at preventing taxpayers from being overburdened by property taxes, just as electrical circuit breakers keep circuits from being overloaded by current — are in use in some form in 33 states, mostly for elderly taxpayers. The ingredients of a well-designed program include targeting taxpayers of all ages, limiting relief for high-value homes, broadly defining income and including Social Security checks as income. A simple and well-publicized application system can maximize taxpayer participation.

Payments in lieu of taxes

Voluntary PILOT contributions are collected from nonprofit charitable organizations in 117 municipalities across 18 states. The basic idea is that while nonprofits are exempt from paying property taxes, they might reasonably be asked to contribute a fraction of what they would pay in property taxes, to the mutual benefit of the towns and cities where they are located. Municipalities can use these funds without increasing property taxes for others.

Tax caps that limit collections

Both California and Massachusetts many years ago established property tax caps. But the devil is in the details in terms of how these caps actually work. The key is to limit collections, not assessments. The California experience has shown the dangers of assessed property value limits, which can result in higher property taxes for the very homeowners they are intended to assist, and can cause unpredictable new shifts in tax liabilities.

Whatever property tax levy is deemed to be appropriate, it should be divided among the taxpayers in a fair and transparent manner. Homestead exemptions, hardship reductions and income-based circuit breaker tax relief can help needy individuals reduce or phase in their taxes. In all cases, a tax on property values should be based on accurate valuation. A tax cap based on assessment limits has been shown to be a bit of a blunt instrument.

The property tax remains under fire, from New England to Florida and beyond. But there are clearly dangers in shifting to other forms of collecting revenue for basic services, including schools. There are plenty of misgivings in South Carolina after that state attempted such a shift from the property tax to the sales tax and has seen sales tax revenue plummet.

Taking some of the steps described above might be a way to take a tried and true policy approach: to mend it, not end it.

ON THE WEB

- **Property Tax Assessment Limits:** Lessons from Thirty Years of Experience www.lincolinst.edu/pubs/1412_Property-Tax-Assessment-Limits
- **Property Tax Circuit Breakers:** Fair and Cost-Effective Relief for Taxpayers www.lincolinst.edu/pubs/1569_Property-Tax-Circuit-Breakers
- **Payments in Lieu of Taxes:** Balancing Municipal and Nonprofit Interests www.lincolinst.edu/pubs/1853_Payments-in-Lieu-of-Taxes

Find this article at:

<http://www.ajc.com/business/atlanta-property-taxes-making-787299.html>

 Print this page  Close