

CORNELL
AGRICULTURAL ECONOMICS
STAFF PAPER

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By

Bert Mason

February 1976

No. 76-11

Department of Agricultural Economics
Cornell University Agricultural Experiment Station
New York State College of Agriculture and Life Sciences
A Statutory College of the State University
Cornell University, Ithaca, New York, 14853

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The property tax is one of the oldest forms of taxation and remains as the primary tax levied by local governments. Taxation on real property has persisted since the colonial period of the United States, and is likely to continue as an important source of local government revenues. Yet, the property tax has been the most criticized and perhaps most disliked tax collected by modern government. Calls for reform are not phenomena of the 1970's; in 1895, the charge was made that "the general property tax as actually administered is beyond all doubt one of the worst taxes known in the civilized world."^{1/}

Reaction to real property taxes has been so irate at times that some observers felt a genuine taxpayers' revolt was imminent. Among the long list of criticisms of the property tax are the following specific charges: (1) it is regressive in incidence;^{2/} (2) it is inequitable in administration; (3) the property tax no longer reflects an individual's ability-to-pay or his/her consumption of local public services; and (4) it effects inefficiencies in resource utilization (particularly land-use). In 1931 Jens Jensen said of the property tax:

* Speech presented to the Hyde Park Visual Environment Committee, St. James Parish, Hyde Park, New York, January 20, 1976.

^{1/} Edwin R. A. Seligman, "The General Property Tax," in Essays in Taxation, 9th ed., New York: Macmillan, 1921, p. 62.

^{2/} A tax is regressive when the ratio of tax to income falls as income rises; progressive when the ratio of tax to income rises as income rises; and proportional when the ratio of tax to income is the same for all income classes. Source: Joseph Pechman and Benjamin Okner, Who Bears the Tax Burden?, Washington, D. C., The Brookings Institution, 1974, p. 1.

If any tax could have been eliminated by adverse criticism, the property tax should have been eliminated long ago. It is even difficult to find anyone who has given it careful study who can subsequently speak of its failure in temperate language.^{3/}

Despite the abundance of long-standing criticism, the annual take from the property tax has, in absolute terms, been increasing at a prodigious rate. Nationwide, property taxes yielded \$45 billion in 1973, more than double the total a decade before.^{4/} This increasing burden on taxpayers has accelerated concern over property taxes.

It is probably true that much of the criticism levied against property taxes is ill-founded. Since the introduction of income and sales taxes a half-century ago, the property tax has declined from 56 percent of all state and local taxes in 1932 to 16 percent in 1973.^{5/} Moreover, a recent Brookings Institution study has found (although its theoretical assumptions and empirical analysis of data are not necessarily conclusive) that the incidence of property taxes is slightly progressive and that property taxes are fairly neutral in terms of affecting resource utilization patterns.^{6/} So, the property tax may not be as perverse as often claimed.

With this background information in mind, possible alternatives to property taxes can be categorized into three general areas: reform within the existing property tax structure; non-property tax revenues; and expenditure reductions (including shifts away from local financing of some services). These alternatives will be dealt with in turn.

^{3/} Jens P. Jensen, Property Taxation in the U. S., University of Chicago, 1931, p. 478.

^{4/} Arley D. Waldo and Carole B. Yoho, "Property Taxation in the United States," in Property Taxes...Reform, Relief, Repeal?. North Central Regional Extension Publication 39, undated, p. 5.

^{5/} Ibid.

^{6/} Henry Aaron, Who Pays the Property Tax?, Washington, D. C.: The Brookings Institution, 1975.

Reform within the existing property tax structure. One alternative is to improve the existing methods of administering the property tax. A basic criticism of the property tax is that it is inequitable -- and this is primarily because assessing a "fair value" for a particular piece of property inevitably includes some subjective value judgement by an appraiser. Property taxes become inequitable when individuals with similar properties have different assessments; various methods have been suggested and adopted by some states to reduce these inequities.

By way of comparison, New York State cannot be considered at the forefront of modernized assessment practices. For example, in California real property is reassessed by market trends on an annual basis and is physically reassessed by an appraiser on a regular basis (usually every 4-5 years). Although assessment practices are far from perfect in California, or any other state of the Union, New York State can learn something from these progressive procedures. It appears that current interest is high in the Empire State to reform assessment practices. These modernized assessment practices include two general categories:

(1) Computerized assessments: A computerized information system which would allow assessors to update assessments annually without the necessity of expensive and time consuming on-site evaluations every year represents one tool which has the potential for improving assessment practices. The New York State Real Property Tax Information System -- developed by the State Board of Equalization and Assessment -- is currently being used on a trial basis in a few jurisdictions. The major advantage of such a system is that it would allow hard-pressed local assessors to keep reasonably current on fair market values during periods of rapidly changing real estate prices. This computerized assistance represents a channel for making the property tax more equitable, particularly if it is used to supplement and improve, not replace, local assessment practices.

Computerized assessments will likely encounter serious difficulties-- computers, and the people who run them, are notorious for their imperfections. In these times of fiscal belt-tightening, it is likely that the operation will be underfunded and adequate services will be delayed.

(2) Full value assessment: The second move towards modernizing assessment practices is full value assessment for all types of real property. Present practices assess property at different fractions of full value among taxing jurisdictions, and often at different ratios of full value for different classes of property within jurisdictions.^{7/} But the Hellerstein vs. Town of Islip court decision, backstopped by the Ed Guth vs. City of Syracuse case, probably means that a move towards full value assessment is on its way in New York State.^{8/}

Implementation of full value assessment will cause real as well as perceived problems in administration in the short-run. Such a major change in assessment practices is likely to be difficult and costly to achieve. The transition period will be confusing. It would not be surprising to see efforts in the State legislature to specify different assessment ratios for various classes of property. Such a process might prove to be beneficial, since it would force

7/ According to the 1972 Census of Governments, single-family (non-farm) homes in New York State were assessed at the average rate of 25.8 percent of full market value whereas business properties were assessed at 49.4 percent of full value (Source: U. S. Bureau of the Census, 1972 Census of Governments, Vol. 2, Taxable Property Values and Assessment--Sales Price Ratios, Part 2, Assessment--Sales Price Ratios and Tax Rates, p. 37). Moreover, there is much variation from these statewide averages among (as well as within) individual assessing jurisdictions. For example, in 1969 assessment-market value ratios for the Village of Dryden (Tompkins County) averaged 52.04 percent for residential homes and 65.57 percent for commercial properties (Source: State Board of Equalization and Assessment, 1973 Survey on 1969 Assessment Rolls, County of Tompkins).

8/ For discussion of these court decisions, see Thomas F. McGrath and Mary E. Mann, "Effect of Hellerstein Decision", New York State Assessors' Association Bulletin, July/August 1975, pp. 1-3; and Horace Z. Kramer, Address to the Convention of County Directors of Real Property Tax Services, Coopers-town, New York, August 6, 1975.

standardization and legitimization of current variable and implicit local practices to the extent that statewide law is actually carried out uniformly throughout the State.

Over the wider horizon, despite inevitable problems of implementation, these modernized assessment practices have potential for improving administration of the property tax. They will make assessments more equitable (if law and practice reflect equity), more easily understood by the taxpayer, and will standardize assessment practices among jurisdictions. This is a move in the right direction for New York State.

Other reforms within the property tax structure have been suggested. Some states have initiated circuit-breakers for property taxes. Circuit breakers are generally designed to prevent taxes on residential, owner-occupied property from exceeding a specified percentage of the owner's income. Such measures are particularly useful for homeowners living on low fixed incomes. Tax relief in this form usually, although not necessarily, calls for state reimbursement of foregone local revenues. Given the current fiscal position of the state and local governments in New York, it is unlikely that any new form of tax relief will be enacted in the near future. However, circuit breakers offer a major advantage of linking property tax burdens with homeowner income and should be considered.

Another suggested change within the property tax system is sharing of tax bases. This concept was developed in Minnesota, and has been instituted in the seven counties constituting the Minneapolis-St. Paul metropolitan region. Since 1971, 40 percent of all new industrial assessments is shared equally among all Twin Cities municipalities and townships, regardless of the development's location in the metropolitan region. This sharing has two objectives: (1) to reduce intraregion competition for new industry, particularly in the form of tax breaks for new industry; and (2) to reduce, partially and gradually, the

impact of differential growth in commercial valuation around the metropolitan area and to move, at least marginally, in the direction of equalizing property tax bases in different jurisdictions.^{9/} Equalizing local tax bases is particularly crucial for school finance, since funding of schools on the basis of an area's real property has been ruled in violation of an individual's right to equal education under several state constitutions (for example, Serrano vs. Priest, California Supreme Court, August 1971). A federal district court (San Antonio Independent School District vs. Rodriguez) ruled that the Texas school finance system violated the equal protection clause of the Fourteenth Amendment of the U. S. Constitution, but this ruling was overturned by the United States Supreme Court. Despite this judgement by the Supreme Court, it is likely that future state challenges will require that legislatures deal with issues of school financing.

Since the 1920's, New York State aid formulas have been designed to equalize educational opportunity by distributing state aid, in part, according to local school districts' needs and financial abilities. State aid for education does not fully equalize local fiscal burdens and aid formulas often get out of adjustment in the long intervals between basic revisions. Further equalization of local fiscal disparities thus remains an important issue in New York State.

Tax base sharing is an interesting idea and apparently has been successful in Minnesota. Tax base sharing has the potential to offer relief for one of the property tax systems shortcomings -- extreme inter-local differences in taxable resources.

Complete or partial exemption of certain classes of property has reduced local tax bases, particularly in areas with high concentrations of state and

^{9/} Charles R. Weaver, "The Minnesota Approach to Solving Urban Fiscal Disparity," State Government, Spring 1972, pp. 100-105.

federal properties and properties of non-profit religious, charitable and educational organizations. For example, the City of Albany provides considerable public services for state-owned facilities yet is unable to levy taxes on these properties. As exemptions increase and the local tax base erodes, owners of non-exempt property are forced to bear increasing shares of the cost of supporting local public services.

Exemption of federal and state-owned property from local taxes is a longstanding controversy. Some relief, in the form of impact or in lieu aid, is available to school districts with extensive federal land-holdings (usually military bases). But, for the most part, local general governments are unable to collect tax or in lieu revenues which adequately compensate for expenses incurred by state and federal properties. There is limited precedent in New York State which allows local governments to levy taxes on state-owned properties. For example, all wild or forest lands owned by the state within the forest preserve are subject to taxation for all purposes.^{10/} As fiscal pressures continue to increase, reductions in property tax exemptions for various classes of property are sometimes considered. Of course, the state and federal governments (and perhaps the courts) would have to cooperate if such an effort is to be successful.

Alternative revenue sources. There are several revenue sources available to local governments that might be initiated or increased to supplement or partially replace property taxes. One alternative is a local sales tax. An advantage of a general sales tax is that it is almost neutral in terms of its effect on resource allocation decisions -- for example, it would not adversely effect land use. A general sales tax, as opposed to a property tax, may also be beneficial to businesses and encourage them to move to an area (or at least not move away), since general sales taxes are usually borne by consumers, not

^{10/} Real Property Tax Law § 532 (a).

producers. There are problems with the sales tax; perhaps the most important is that it has been accused of being regressive in its incidence. That is, lower income families tend to spend higher proportions of their income for consumption purposes than do higher income families. However, exemption of food from sales taxes largely mitigates this regressivity and makes the incidence of sales taxes essentially proportional to income. The major practical limitation to increased use of sales taxes is that they are already quite high in New York State (4¢ for the state, plus a maximum of 3¢ for local governments except New York City) so that there is probably little room for expansion. Certainly, those local jurisdictions that have not adopted local sales taxes should consider this as an alternative to increasing property taxes.

A second non-property tax revenue is user fees. User fees are merely a charge by the governmental unit for services rendered, such as a monthly fee for trash collection or a sewer hook-up charge. User fees operate in a fashion similar to the workings of the private market place. Direct charges to the user force those who benefit from a service to pay a fee which reflects, at least in part, the cost of providing the service. One limitation to increasing reliance on user fees is that many of the services provided by local governments don't readily lend themselves to such a pricing mechanism. Such activities are called pure public goods by economists, and they have the characteristics of conferring benefits generally to all members of the community, not just particular and identifiable individuals. Examples of local services which exhibit characteristics of public goods are police and fire protection, flood control dams, and local roads. It is difficult to envision tolls on local roads or fees to those who benefit from administration of the criminal justice system. But, for many services and functions, local governments could institute charges which reflect an individual's consumption.

A third, and perhaps the most promising, alternative to property taxes is local income taxes. Income taxes could be levied by local entities and collected through existing state income tax structures. The major advantage of an income tax is that it is the most progressive form of taxation in the U.S. and therefore reflects to some extent an individual's ability to pay. Another benefit of income taxes is that they are based on flows of income rather than stocks of property. One of the major problems with property taxes is that an owner -- such as a farmer -- has to pay property taxes even if he has zero or negative income for that year.

Institution of a local income tax in New York State (for local governments other than New York City), despite its appeal, is probably unlikely in the near future. Prospects for state legislation and/or local voter approval appear slight, but an increasing deterioration of the local fiscal picture can alter influential opinions, as it has at other similar times.

A final alternative to property taxes is intergovernmental aid from federal and state levels. Intergovernmental revenues have become an increasingly important source of revenue for local governments during the past quarter century, and have surpassed the total property tax collections of local governments in the United States. This, for the most part, has been a favorable change in financing government, since federally-collected taxes tend to be more progressive than those raised at the local level. But there has been a cost inherent to these intergovernmental transfers; this cost has been a loss of local control and direction in choosing how local governments spend their revenues. Another limitation to replacement of local taxes with intergovernmental revenues is that future growth of these federal and state revenues will likely be somewhat slower than the rates experienced in recent years. The federal and New York State governments, just like local governments, face budgetary demands which

exceed available resources. The result will probably be a levelling-off of federal and state transfers to local governments.

A very important issue which will have to be addressed in the near future is school financing. As mentioned earlier, court decisions may bring reductions in dependence on property taxes to support local school districts. One possibility is increased state aid, financed by state income taxes, to replace property taxes. Another alternative discussed during the Nixon Administration was initiation of a value-added tax collected by the federal government and distributed to states for the purpose of financing education. The value-added tax is standard among the industrialized nations of Europe, and is a percentage (for example 3 percent) levied at each stage of the production process on the value added at that stage. While these alternative school revenue sources have some advantages over local property taxes, the issue of school finance is a complex and often emotional issue with no clear-cut remedies.

Local expenditure reductions. The final alternative to property taxes is to look at the other side of the budget equation by reducing local expenditures. This possibility is a very real one which faces local governments in New York State. These are difficult fiscal times, especially for governments. Tough choices will have to be made on the relative desirability of local governmental services and priorities will have to be established. However, one note of caution must be added to this tax-reducing alternative -- a large share of expenditure changes will have to be authorized at the federal and state levels, since many of the most expensive local functions are mandated on them. Local hands are tied on deciding the level and quality of many of the services they provide and functions they perform.

Serious consideration is often given to the possibilities of shifting, at least in part, some of the financial burdens for particular services which are now borne by local property taxes to state and federal governments. Aside from

state-financing of education, which has been mentioned previously, complete take-over by the federal government of welfare services is another possibility. A move in this direction was proposed in Nixon's Family Assistance Program, which finally was killed in 1972 because liberals thought it wasn't enough and conservatives thought it was too much. After elections in November, welfare reform will likely be an important issue in Washington, D. C.

Conclusion. In summary, there are some alternatives which could at least incrementally improve or replace taxation of real property. This discussion has certainly not exhausted the entire range of possibilities, nor has it done justice to any of the alternatives. None of the alternatives presented is unambiguously preferred nor is there any magic elixir to soothe the pains of financing necessary local government services. Certainly local income taxes do have some clearly attractive features, but, as one wit put it, the only good tax is one that someone else pays!

One note of caution is that the property tax, despite its inherent flaws, does keep taxing decisions in local hands. Alternative revenue sources may remove discretion from the local sphere; further encroachment on local prerogative is not a generally desired effect of changes in the structure of financing local government.

The property tax has long been criticized, but it must be said that it has been a prolific and relatively stable source of local governmental revenues. But it is also reasonably safe to conclude that the property tax "crunch" is on its way in New York State. With constant or declining population and high levels of demand for public services, pressures on local property taxes are likely to accelerate. The role of professionals, politicians, and citizens should be to find and implement ways to improve and supplement the local property tax system so that local governments can finance their needed activities in the most efficient and equitable fashion possible.

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