



# Property Taxes: What Everybody Needs to Know

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## **Abstract**

The property tax is the largest single source of revenue under the control of state or local governments in the United States. Property taxes provide a fundamental fiscal foundation for all types of local governments, but structural characteristics that make the property tax different from other types of taxes can lead to confusion and misunderstanding. Additionally, the gap between public and political perceptions of property taxes, and the views of tax analysts, can be especially wide. Therefore, improved education and understanding of property taxation is especially valuable for policy makers, homeowners and renters, business owners and operators, community leaders, those involved in adjudicating issues about the tax (lawyers and judges), students, and others. This paper helps to inform the public about the property tax by examining its importance to local governments, how the property tax impacts homeowners, and how property tax burdens are distributed.

Keywords: Assessment, Local Government, Property Taxation

## About the Author

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The original 2009 article was addressed to policy makers largely because the property tax was often under assault in the policy arena at that time. There were proposals in a number of states to substantially reduce the property tax, substitute alternative revenue sources, or even to eliminate the tax entirely. In many cases, it seemed that the reasons offered for these changes were inconsistent with the research evidence and understanding. Thus, the goal was to inform and assist policy makers.

However, it has become clearer that understanding the operation and fiscal details about local government taxation is of value to everyone—yes policy makers, but also homeowners and renters, business owners and operators, community leaders, those involved in adjudicating issues about the tax (lawyers and judges), students, and others. In short, everyone. Thus, the title change. I hope that everyone finds this information useful.

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# **Property Taxes: What Everybody Needs to Know**

## **Introduction**

Property taxes continue to provide a fundamental fiscal foundation for all types of local governments in the United States. The property tax is the largest single source of revenue under the control of state or local governments. Property taxes also involve several structural characteristics that are different from other types of taxes, which can lead to some confusion and misunderstanding. Therefore, property taxation seems to be a topic for which improved education and understanding is especially valuable—for everybody.

Political or policy objections to property taxes generally often amount to a charge that the tax is “unfair.” Economists and other tax analysts focus on the effects on housing consumption, location decisions of both households and businesses, and local government decisions about the efficient quantity of public services (Zodrow 2008). The gap between popular and political perceptions of property taxes, on the one hand, and the views of tax analysts on the other, can be especially wide. Reflecting President Kennedy’s (1962) warning that “too often we hold fast to the clichés of our forebears,” many misperceptions about property taxes reflect the state of tax administration well in the past or ignore recent research results that provide a new and substantially different perspective.

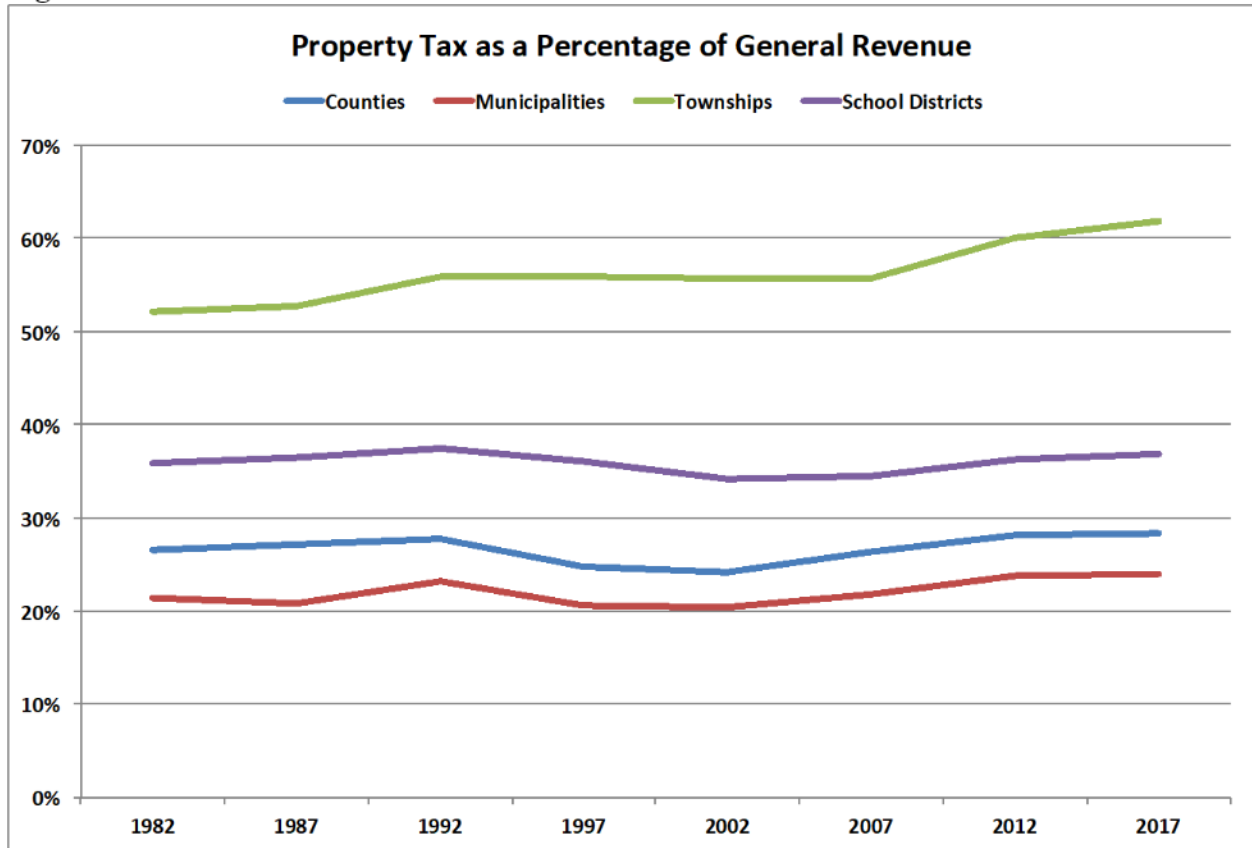
## **Property Taxes and Local Governments**

### **Property Taxes Are the Financial Foundation for Local Government**

The \$529.6 billion in property taxes collected by local governments in fiscal year 2018 accounted for about 30 percent of all local government general revenue and nearly 70 percent of local government taxes. As the primary revenue source directly controlled by local governments, the property tax has been central to local fiscal autonomy.

Property taxes provide more than one-third of general revenue for public schools nationally, about 28 percent of revenue to county governments, and about a quarter of revenue for cities (see figure 1). Townships, many of which provide public services in more rural areas, depend on property taxes for about 62 percent of revenue. Overall, the share of local revenue from property taxes has increased modestly since 1982, although substantially so for townships.

Figure 1



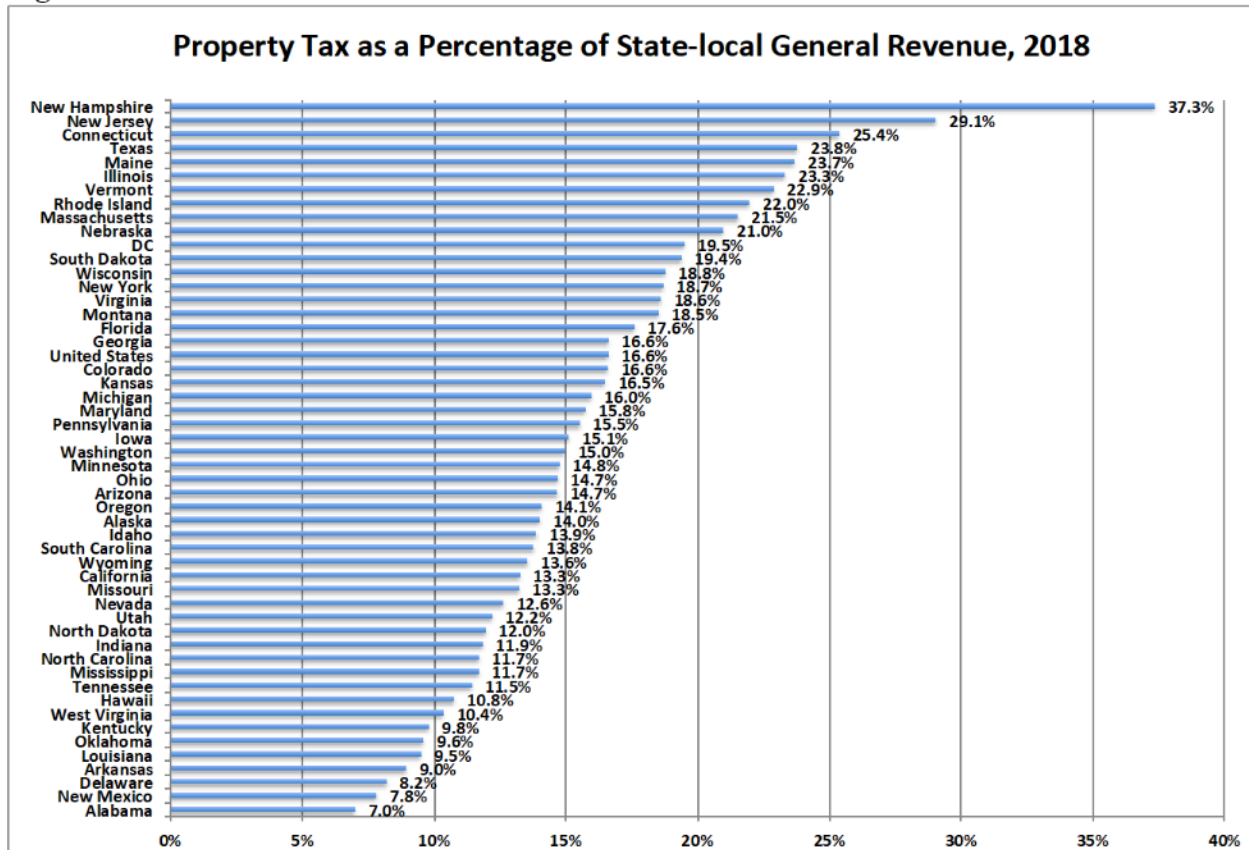
Source: U.S. Census Bureau

Within the overall trend, the fiscal reliance on property taxes for state and local governments varies substantially among the states (see figure 2). Property taxes are most important relatively in New Hampshire (37 percent of general revenue) and New Jersey (29 percent). In contrast, property taxes are relied on relatively least in Alabama (7 percent of general revenue), New Mexico (8 percent), and Delaware (8 percent).<sup>1</sup>

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<sup>1</sup> In general, there are substantial differences among states for most aspects of the property tax. The Lincoln Institute provides such information in the *State-by-State Property Tax at a Glance* database, which includes data and descriptions for the property tax in every state (see <https://www.lincolnst.edu/research-data/data-toolkits/significant-features-property-tax/state-state-property-tax-glance>).

Figure 2



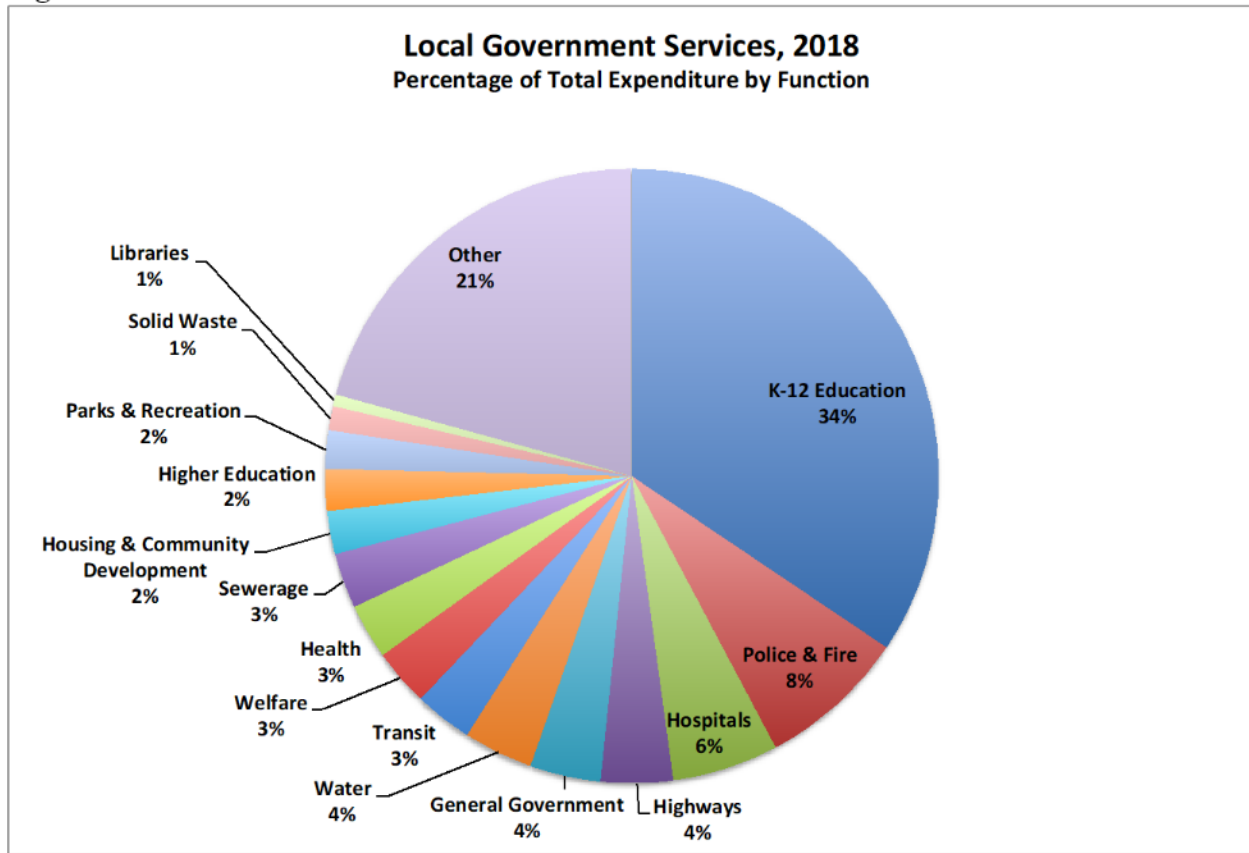
Source: U.S. Census Bureau

### Local Governments Use Property Tax Revenue to Provide a Wide Array of Services

Property taxes are the primary way that individuals and businesses pay for services provided through local governments. Those services provided through local governments tend to be those that most affect citizens on a day-to-day basis. Nationally, and combining all types of local governments, K-12 education is by far the largest local public service, accounting for more than one-third of local government spending (see figure 3).

The wide array of other public services and facilities provided through local government is reflected by the categories shown in figure 3. These activities that individuals and business rely on include police and fire protection; water and sewer systems; public hospitals and public health services; highways, roads, and streets; public transit, parks, and recreation services; waste collection; community colleges; and a mix of administrative functions such as courts, record keeping, documents, and voting.

**Figure 3**



Source: U.S. Census Bureau

### **Property Taxes Are Based on the Market Value of Property, Which May Be Estimated**

Property taxes are levied on the value of capital (primarily land, structures, and equipment) used in producing goods and housing services. The property tax is different from other state-local government taxes because the property tax base—the property market value—usually must be estimated because market transactions are unavailable. Most properties do not sell every year. Therefore, methods and procedures for assessing the value of property for tax purposes are a crucial part of the property tax process. An assessor determines the market value of all properties using a specific set of procedures, usually established by state law. Assessed value is a fraction (often 100 percent) of the estimated market value. Tax assessors are most often professional employees of local governments such as municipalities or counties.

To estimate market value, assessors use three methods. Data from actual sales and property characteristics can be used to estimate the values for similar properties that are not sold, value might be based on initial cost adjusted for depreciation and construction cost changes, or value might be measured by the present value of the future net income expected to be generated by the property. The first approach is used most often for assessing single-family homes and land, whereas the cost and income approaches are usually used for commercial and industrial properties. In a well-functioning property tax system, the tax will be related to the market value of the property.

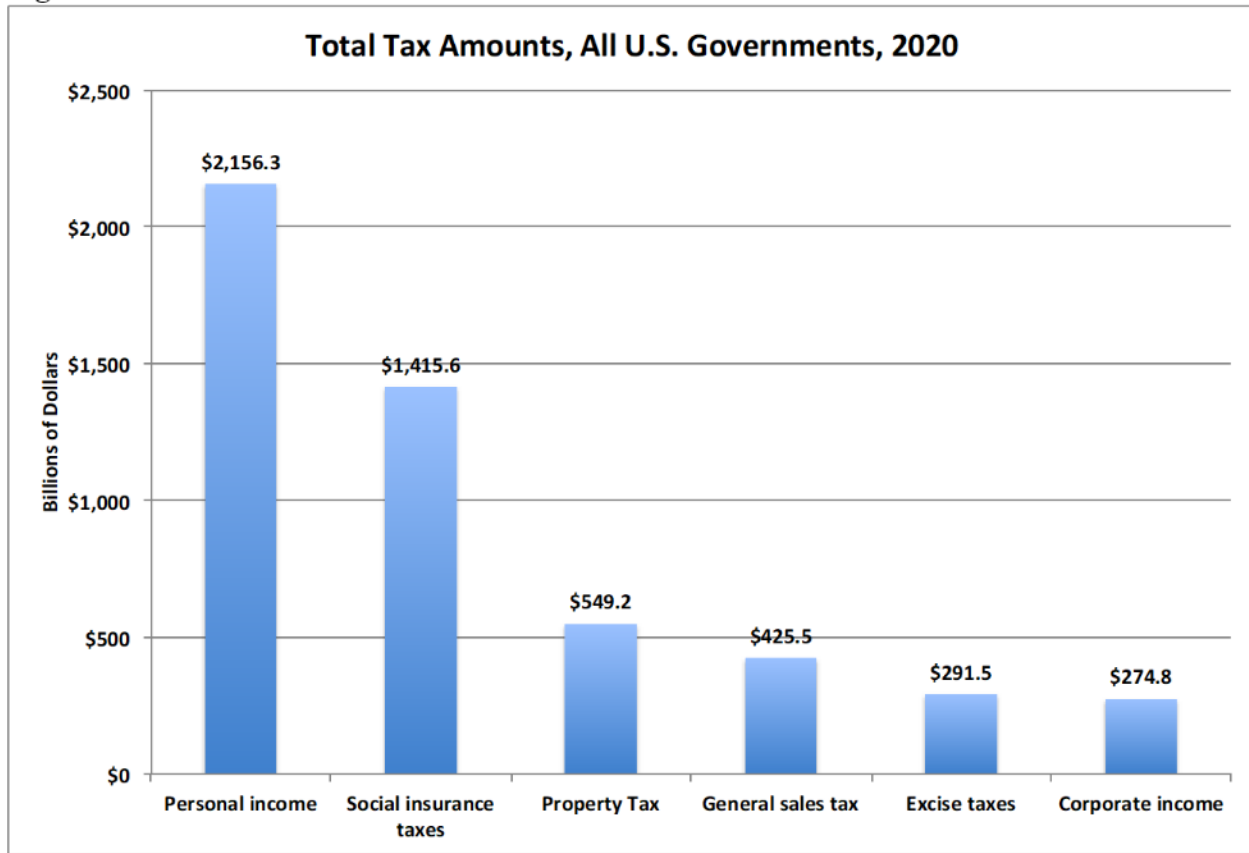
In 19 states and the District of Columbia, the growth of assessed property value that will be taxed is limited in some way so that the taxable value of property becomes separated from market value. Although the objective is to limit how fast homeowner property taxes can grow, such limits defeat the main principle of the property tax—the tax base is the value of property. With these limits, tax liability will not reflect the growth in the market value of properties. In some states, the limit on assessed value that is taxable is removed when a property is sold, which can lead to horizontal inequity—similar properties having different tax liability—and to “lock-in”—an unwillingness to sell a property solely for tax reasons. Generally, exemptions and credits are better than value limits to reduce taxes for certain types of property or property owners.

### **Replacing All Property Taxes Would Require More Than Doubling State Sales Taxes**

Total property taxes collected by all U.S. governments for fiscal year 2020 (\$549 billion) were more than all general sales taxes (\$426 billion), all corporate income taxes (\$275 billion), and all selective excise taxes (such as gasoline and cigarette taxes, \$292 billion). Property tax revenue also is greater than total state and local government personal income tax revenue. Only the federal personal income tax and social insurance taxes are larger than the property tax (see figure 4).

To understand the magnitude of the property tax, if all property tax revenue were to be replaced by higher general sales tax revenue without any change in the sales tax bases, state sales tax rates would have to more than double. Assuming the average state and local general sales tax rate is about 7 percent, rates of about 16 percent would be needed to replace all property taxes and maintain sales tax revenue. Similarly, property tax revenue could be replaced by doubling all state and federal business income taxes.

**Figure 4**



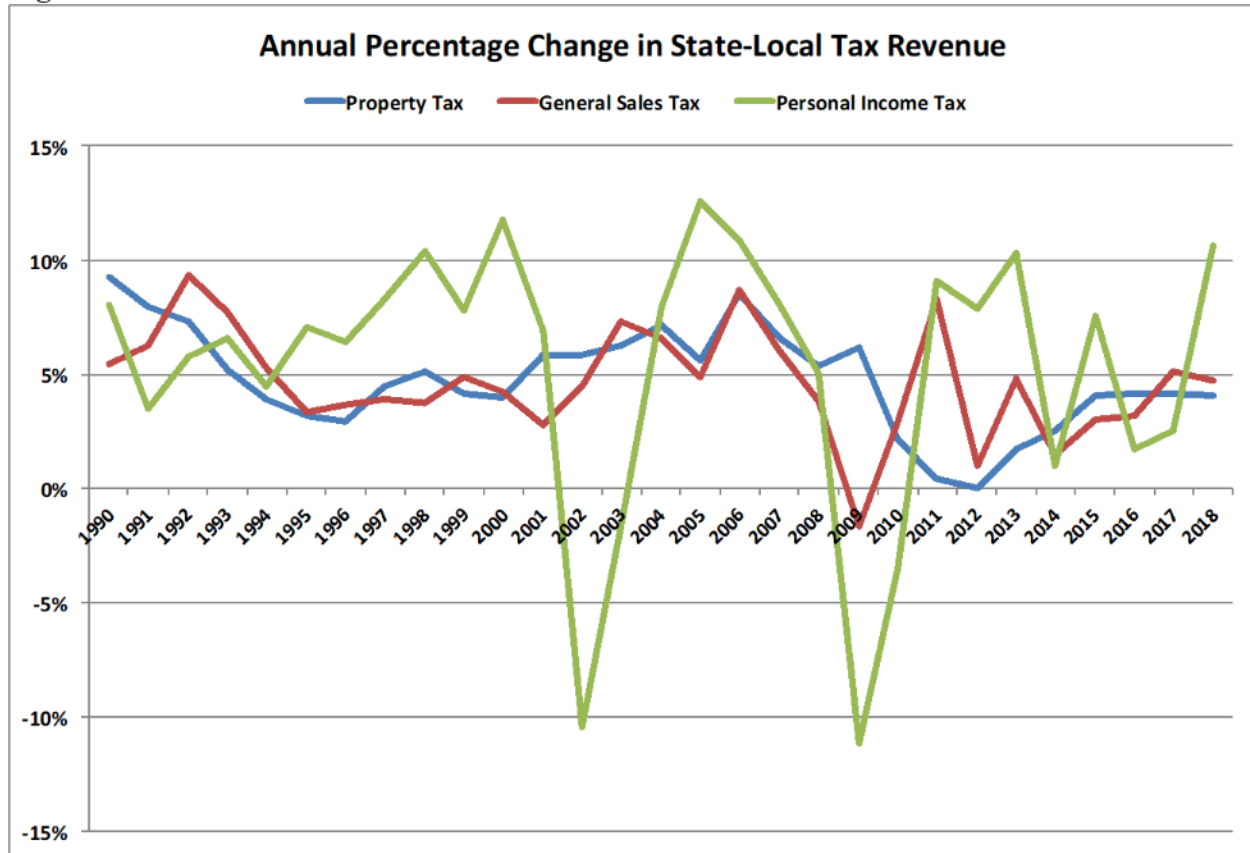
Source: U.S. Census Bureau; Bureau of Economic Analysis

### **Property Taxes Have Been Responsive to Economic Growth and Relatively Stable Over Time**

Two key questions for all taxes concern their long-run budget implications. Does the tax base grow automatically in response to economic growth? And to what degree does the tax base vary from year to year as the economy fluctuates? Demand for public services normally increases with economic (income) growth, requiring additional revenue to provide additional services. If a tax base varies substantially as national economic conditions vary, then budget planning becomes more difficult.

Property taxes have been a stable revenue source compared to sales and income taxes, varying the least across years among all the major state taxes (see figure 5). The stability of the property tax base reflects the economic fact that capital investment (both residential and business) is by nature a long-run decision influenced more by long-run expectations than short-run economic circumstances. Property values traditionally have not declined substantially with each recession, and when they have declined, the typical lag in assessments has maintained taxable property values at least through the first part of the economic downturn (Kenyon and Munteanu 2021).

Figure 5



Source: U.S. Census Bureau

Furthermore, property values in the United States have reflected long-run economic growth, so that property tax revenues also increased. Property tax revenue declined only in the years immediately after the Great Recession, but recovered shortly after.

### Property Taxes and Homeowners

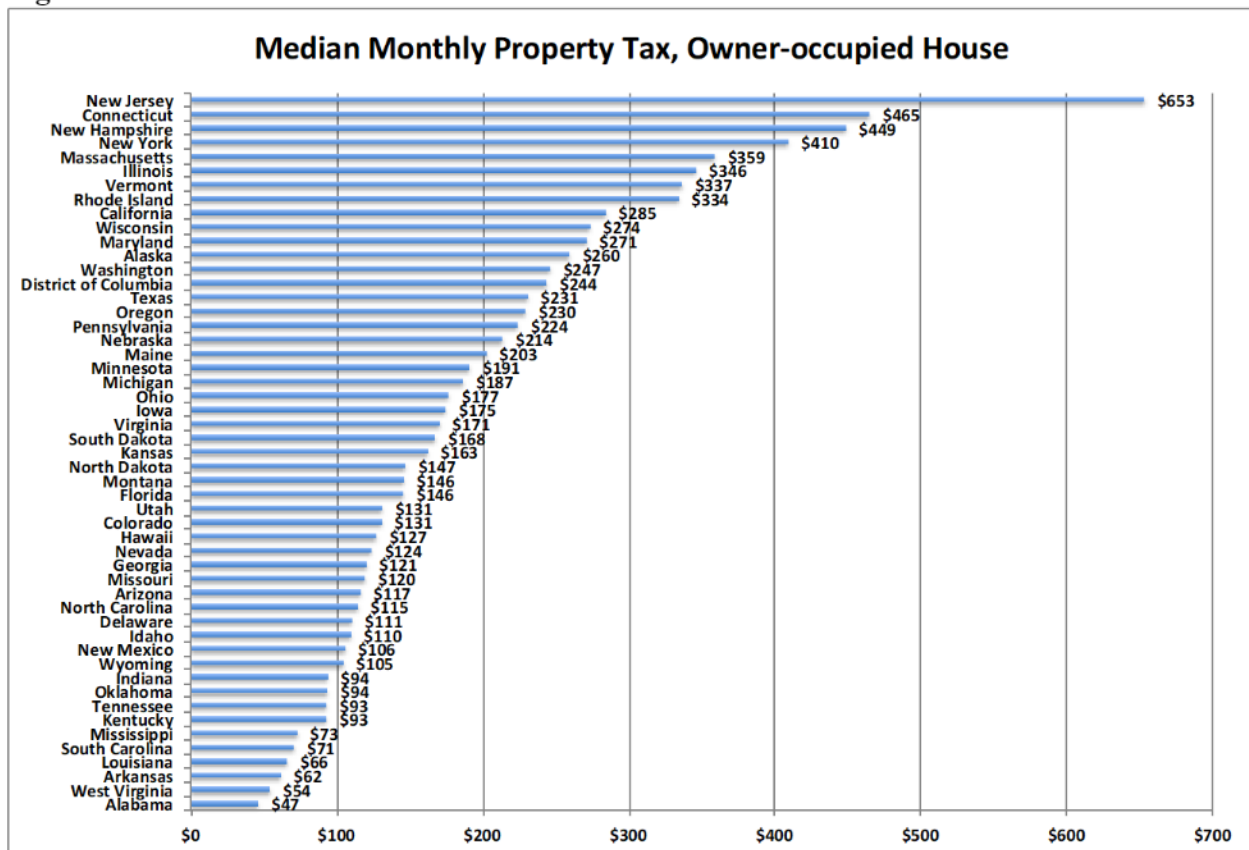
#### Typical Homeowner Property Tax Payments Are About \$200 Per Month

What is the “typical” property tax liability for a homeowner? The 79.5 million year-round, owner-occupied housing units in 2019 had a median market value of \$230,000 and median monthly real estate tax of \$198 (American Housing Survey 2019). Therefore, half of U.S. homeowners pay less than \$200 per month in property tax. The median homeowner had annual property taxes of about \$2,375, an effective property tax rate of approximately 1 percent (1.03 percent) of property value.

Of course, property tax amounts vary among homeowners because tax rates differ among communities, and homeowners have properties of different values. The choice of the property tax rate reflects both the desired amount of public services and the reliance on property taxes to fund those services. For example, a homeowner with a \$300,000 house in a community with

average tax rates could expect annual property taxes of about \$3,000 or \$250 monthly. Just as there is great variation across states in property tax reliance, there is also a wide range of typical homeowner property tax payments (see figure 6). Typical homeowner property taxes are especially high in the northeast (New Jersey, Connecticut, New Hampshire, and New York) due to both higher property values and higher tax rates. Typical homeowner property taxes are especially low in the southeast (Alabama, West Virginia, Arkansas, Louisiana, South Carolina, and Mississippi) for the opposite reasons. For example, the median home value in New Jersey is nearly \$350,000, and that state relies on the property tax for 29 percent of general revenue, whereas the median home value in Alabama is about \$155,000, and that state relies on the property tax for only 7 percent of revenue. Similarly, typical homeowner property taxes may vary among communities in the same state.

**Figure 6**



Source: U.S. Census Bureau, American Community Survey

### Concerns About the Amount of Property Tax for Certain Households Can Be Mitigated with Targeted Tax Adjustments

Every state has programs to reduce or limit property tax burdens for selected homeowners, so that net tax amounts are often lower than indicated by the housing survey. For instance, 44 states and the District of Columbia provide homestead exemptions or credits, and 34 states and the District of Columbia provide property tax rebates or credits (often called “circuit breakers”) that apply if property taxes exceed some specified percentage of income. Eligibility for many of these

programs is determined by income or wealth or targeted to specific taxpayers, especially senior citizens or homeowners with special circumstances.<sup>2</sup>

Exemptions are an amount of taxable property value (measured in dollars or a percentage) that is not taxed. For example, a program might specify that the first \$10,000 of property value is not taxed for seniors. Credits are reductions in the amount of property tax owed, either a flat-dollar credit or a percentage credit. For example, a program might specify that 10 percent of the property tax bill is forgiven for homeowners with income less than \$50,000. Either can reduce property tax liability without interfering with the property assessment process. Also, 25 states and the District of Columbia provide property tax deferral options to prevent owners from having to sell a house to pay taxes.

Finally, property taxes may be “reduced” for homeowners through federal income tax deductions taken by taxpayers who itemize deductions in calculating federal individual income tax. Although historically important, the value of this federal income tax reduction was reduced greatly by the federal income tax reform in 2017. In addition, property taxes are business expenses for firms and may be deducted fully in calculating federal corporate income taxes.

### **Increases in Property Tax Payments Due to Increases in Property Values Can Be Better-Understood and Addressed with Policy Changes**

If the market and taxable value of properties in a jurisdiction rise and the tax rate is kept constant (or if the tax rate is reduced, but less than proportionally to the increase in values), then property tax amounts for those properties that are increasing in value will increase as well. Because the increased value of an owner-occupied dwelling is not normally realized until the house is sold, taxpayers may face higher property taxes without additional income (cash) to pay the higher tax amount.

The example of a household with a \$100,000 income and a home with an initial value of \$300,000 may be instructive (table 1). Initially, the household has a monthly mortgage payment of \$1,275 and a monthly property tax payment of \$250, so that housing expense is 18 percent of income. If over five years housing values grow 6 percent annually and incomes 3 percent, the value of the house will be about \$400,000 and the household’s income about \$115,900. With a constant tax rate, annual property tax liability will rise from \$3,000 to \$4,000 and monthly property tax payments from \$250 to \$333—an overall housing payment increase of \$83 per month. Although taxes have risen faster than income, the ratio of housing expense to income has fallen (from 18 to 14 percent), and the household’s home equity has increased from \$30,000 (the initial down payment) to roughly \$130,000, a \$110,000 capital gain.

What are possible or appropriate responses to this situation? Of course, no policy response may be necessary, because homeowners in this situation are wealthier, at least on paper. Indeed, one

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<sup>2</sup> Details about these exemptions and credits for each state are available in *Significant Features of the Property Tax, 2020* (<https://www.lincolnst.edu/research-data/data-toolkits/significant-features-property-tax/access-property-tax-database/residential-property-tax-relief-programs>).

could argue that sometimes individuals purchase homes with the expectation and desire that the value would increase.

Two programs have been used by states and localities to deal with this concern. The first, circuit breakers, provides tax credits or rebates when property tax amounts exceed some threshold of income. If property taxes rise faster than income, then a circuit breaker credit or rebate may effectively reduce the amount of the tax increase. A second possible solution is to permit households to defer property tax payments (or at least the increase in payments) until the house is sold. For the \$300,000 house example, if the owner sold the house after five years and had deferred only the *increase* in property tax amounts compared to when the house was purchased, the owner would owe about \$3,060 in back taxes (plus interest), but would have a \$100,000 capital gain from which to pay the deferred tax.

**Table 1**

<b>Illustration: Growth of Value and Tax</b>		<b>Change After 5 Years</b>	
<i>Market Value</i>	\$300,000	<i>New Market Value (6% growth)</i>	\$400,000
<i>Household Income</i>	\$100,000	<i>Household Income (3% growth)</i>	\$115,900
<i>Value to Income Ratio</i>	3.0	<i>Value to Income Ratio</i>	3.45
<i>Mortgage Amount</i>	\$270,000		
<i>Monthly Mortgage Payment (principal + interest)</i>	\$1,275		
<i>Effective Property Tax Rate</i>	1.00%	<i>Effective Property Tax Rate</i>	1.00%
<i>Annual Property Tax</i>	\$3,000	<i>New Annual Property Tax</i>	\$4,000
<i>Monthly Property Tax</i>	\$250	<i>New Monthly Property Tax</i>	\$333
<i>Total Monthly Expense (principal + interest + tax)</i>	\$1,525	<i>New Total Monthly Expense (principal + interest + tax)</i>	\$1,608
		<i>Change, Annual Property Tax</i>	\$1,000
		<i>Change, Monthly Expense</i>	\$83
		<i>Change, Property Value</i>	\$100,000
<i>Monthly Housing Expense/Income</i>	0.18	<i>Monthly Housing Expense/Income</i>	0.14

Several other options to ease tax payments might be considered. To address the planning problem of large tax bills only once or twice per year, localities might offer monthly property tax payment plans for those not using escrow accounts related to a mortgage. It may be easier for homeowners to plan for a tax bill of \$250 every month as opposed to a bill of \$1,500 every six months.<sup>3</sup> And local governments responsible for collecting property taxes often utilize modern online or other electronic bill distribution and payment mechanisms (credit cards or e-checks).

<sup>3</sup> See Langley (2018).

## Distribution of Property Taxes

### Property Taxes Are Based on and Collected from All Types of Property Owners

Property taxes apply to most forms of real property; that is, land and structures. Obviously, this includes owner-occupied homes. However, property taxes also apply to apartments and other forms of rental housing; commercial businesses such as office buildings and retail or wholesale locations; industrial businesses such as manufacturing or mining facilities; agricultural land and buildings; and land without buildings, such as parking lots. The value of a facility often includes both the value of a structure and the value of the land on which it sits. Some states also apply the tax to some types of tangible personal property, such as business equipment, business inventories, and vehicles. This is less common now than in the past and rules vary greatly among states. About three-fourths of states tax some business personal property, but only nine fully tax business inventories.<sup>4</sup>

A few types of property are exempt from property taxes, including property owned by religious organizations, property owned by nonprofit charitable organizations (hospitals, many private universities), and property owned by federal, state, or local governments. In some cases, these organizations make “payments in lieu of taxes” to the local governments where they are located (see Kenyon and Langley 2010).

The composition of property types that make up the property tax base varies substantially among states, both because of differences in state economies and state policies. The variation in the property tax base is illustrated in table 2, which shows the percentage of property value in various major categories for selected states. For example, residential property is 76 percent of the tax base in New Jersey, but just 40 percent in Nebraska. Agricultural property comprises nearly 38 percent of the property tax base in Nebraska, and commercial property varies from 14 percent to 30 percent of property value. Therefore, a substantial part of the property tax in every state arises from taxation of business property.

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<sup>4</sup> See Watson 2019 (<https://taxfoundation.org/tangible-personal-property-tax/>).

**Table 2**

<b>Share of Property Value for the Property Tax, by Type, 2019</b>								
<b>Property Type</b>	<b>Colorado</b>	<b>Illinois</b>	<b>Iowa</b>	<b>Michigan</b>	<b>Nebraska</b>	<b>New Jersey</b>	<b>Ohio</b>	<b>Texas</b>
<i>Residential</i>	46.1%	63.7%	60.9%	69.9%	40.5%	76.2%	71.3%	57.1%
<i>Commercial</i>	29.6%	25.8%	27.6%	14.3%	14.4% <sup>a</sup>	13.7%	17.1%	15.9%
<i>Industrial</i>	3.7%	6.2%	4.3%	4.6%		4.0%	4.1%	5.1%
<i>Agricultural</i>	1.1%	3.9%	0.5%	3.1%	37.8%	0.7%	7.0%	
<i>Personal Property</i>				8.0%	5.2%			10.5%
<i>Other</i>	19.5%	0.4%	6.7%	0.1%	16.5%	5.4%	0.5%	11.4%

**a Nebraska reports commercial and industrial property as one category.**

*Source: Significant Features of the Property Tax*

### **The Overall Distribution of The Property Tax Seems to Be Roughly Proportional to Income for The Bulk of Middle-Income Taxpayers**

Tax incidence refers to which individuals bear the ultimate burden of taxes; that is, the burden after the economy has adjusted to any changes caused by the taxes. Accordingly, tax incidence should be distinguished from tax liability or payments. Research shows that for a national uniform property tax on all property, tax incidence measured by effective tax rates (i.e., tax as a percentage of income) would be U-shaped with respect to current annual income—regressive (falling) for the bottom third of households, proportional for the majority, and progressive (rising) for the top 10 percent of households. The rising tax burden for the top 10 percent of taxpayers is important because the national property tax would reduce the rate of return to all forms of capital ownership, thus imposing a relative burden on capital owners, who are concentrated at the top of the income distribution. If the same tax is compared to a measure of permanent or lifetime income, the overall tax burden is essentially proportional to permanent income.

The result is only slightly different if one accounts for variations in tax rates between communities or between types of property. Assuming that the differentially higher property tax burdens fall on homeowners and renters in higher-tax communities and consumers of goods produced with taxed property, tax burdens are regressive for the bottom third of taxpayers and proportional for the remainder (comparing to annual income). The overall result is slightly less progressive because of relatively lower estimated burdens for the highest income individuals.

Research does not support the often-expressed view that sales taxes are relatively better for lower-income taxpayers. Sales taxes tend to be regressive compared to current annual income and roughly proportional with respect to permanent or lifetime income. Overall, property taxes seem regressive among the lowest-income taxpayers (roughly the bottom 20 percent) and progressive for the highest-income taxpayers (the top 10 percent). It is the effect on the highest income households where property taxes and sales taxes are most different. Considering alternatives to the property tax, McGuire, Papke, and Reschovsky (2015) conclude, “The typical sales tax is considerably more regressive than the property tax ... and subnational income taxes are usually nearly proportional or only modestly progressive ...”

There are, however, at least two reasons to think that estimates of overall property tax incidence may not be relevant for specific policy decisions considered by individual states or local governments, as noted next. These two reasons follow from (and require) a little economic analysis.

### **The Expected Economic Effects of a Specific Property Tax Change Depend on Which Governments Change the Tax, And How**

Because the distribution of tax burden depends on the nature of the tax (uniform or differential) and on the geographic extent of any property tax change, analyzing the overall incidence of a property tax may be misleading. First, a nationwide reduction in property taxes would benefit all owners of capital, proportional to the amount of capital owned. Such a change clearly would favor the rich, who own relatively more capital. Second, if only one state eliminated the property tax, the benefit would go to landowners, housing consumers, and workers in that state. Whether such a change is pro-rich or pro-poor depends on the income level of workers and homeowners in that state and would differ greatly between states such as Connecticut and Mississippi. Third, if only one local government eliminated the property tax (by switching to a local income or sales tax, for example), the benefit of the property tax reduction would go almost exclusively to landowners in that locality. The distributional effect depends on the economic characteristic of those landowners, some of whom may not even be residents of the locality.

One needs to be careful of the “catch 22” inherent in this kind of analysis. It might seem that property tax reduction in all lower-income states would be a pro-poor policy for the nation. However, if one low-income state reduces its property taxes the effects would be progressive or pro-poor, but if all lower-income states were to reduce property taxes simultaneously, the effect would be similar to a national reduction in property tax. That is, the effect would be regressive or pro-rich because the benefits would accrue primarily to the owners of capital.

To predict the income distributional consequences of changes in property taxes at the state and local level, it is important to know whether jurisdictions with relatively high property tax rates tend to be high- or low-income communities. The evidence on this point varies geographically, especially for local governments.

### **Under Certain Conditions, The Property Tax Serves as the "Price" for Living in a Given Community and Consuming the Local Government Services**

Now, some more economic analysis is required. Property taxes may become locational prices or fees if (1) consumers choose residential locations based on the property tax and service package offered by the local government; (2) there are different communities from which to choose; and (3) there is some mechanism (such as zoning) to maintain the equilibrium (Fischel 2005, 2014). In such a situation, individuals who desire a similar set of taxes and services are grouped together. If one community has high property taxes because residents demand a relatively large quantity of public services, its residents are simply paying for the services they use.

If property taxes serve as benefit taxes or fees in this manner, then the tax does not change rates of return to capital or create incentives for reallocation of capital between jurisdictions or uses. In

this case, it does not make sense to consider the incidence of the tax separate from the provision of public services, because the tax simply reflects the demand for the services, with each taxpayer paying the cost of the desired consumption of local public services.

Whether to think of property taxes as taxes on mobile capital, or as fees for residing in a particular jurisdiction and benefiting from the services provided there, remains a controversial issue among some public finance analysts. Those who view the property tax as a benefit tax cite studies showing that many metropolitan areas have numerous localities offering different services, each remaining relatively homogeneous, and that the popularity of complicated zoning rules may serve to maintain community homogeneity. Indeed, this perspective seems to apply quite well in suburban areas of relatively large metropolitan regions (see Inman 1994, for example).

There is less agreement on whether this perspective applies to rural areas and large central cities. In rural areas, individuals may have few residential choices because of the geographic size of communities, or may find it infeasible to separate their work and residential location choice. This perspective also may not apply in large cities, which are inherently quite heterogeneous. Property taxes on homeowners in large cities, therefore, may not necessarily correspond to the benefits from public services, so the distributional effect of the tax may be important.<sup>5</sup>

### **Local Differences in Property Tax Bases Can Be Offset by Appropriate State Grants**

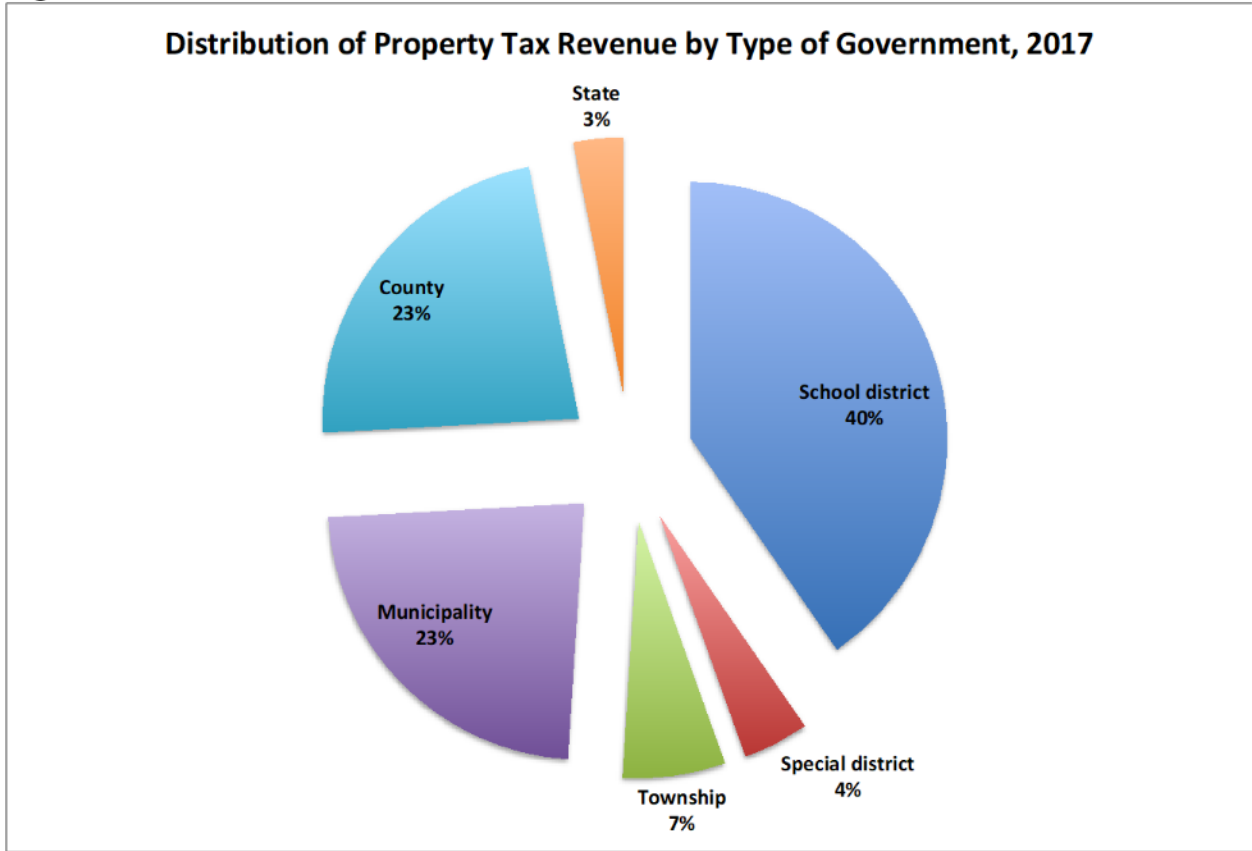
The importance of the property tax for education finance cannot be overstated. About 40 percent of all property tax revenue is collected for K-12 public school districts (see figure 7). Put another way, of the \$200 monthly property tax for the typical homeowner, \$80 goes to fund local elementary and secondary schools. That property tax amount then comprises more than one-third of total public school district revenue (see figure 1). Therefore, differences in property tax bases or values across school districts could contribute to similar differences in educational spending or resources.

As Kenyon (2007) puts it, “children in property-rich districts may have access to better education than children in property-poor districts” or “property-poor districts require higher tax rates than property-rich districts in order to finance the same quality of education.” These differences in property values—and the resulting potential differences in educational spending or local tax rates—are one reason for state government grants to local governments, and especially to school districts. In fact, all states have a system of state school finance aid intended, in part, to offset property value differences, as well as to adjust for educational differences among districts or provide an incentive for additional education service. State government sources provide about 55 percent of the revenue for local public schools (see figure 8). In addition, many states provide intergovernmental grants to counties, cities, and townships that may offset, at least partly, property value differences.

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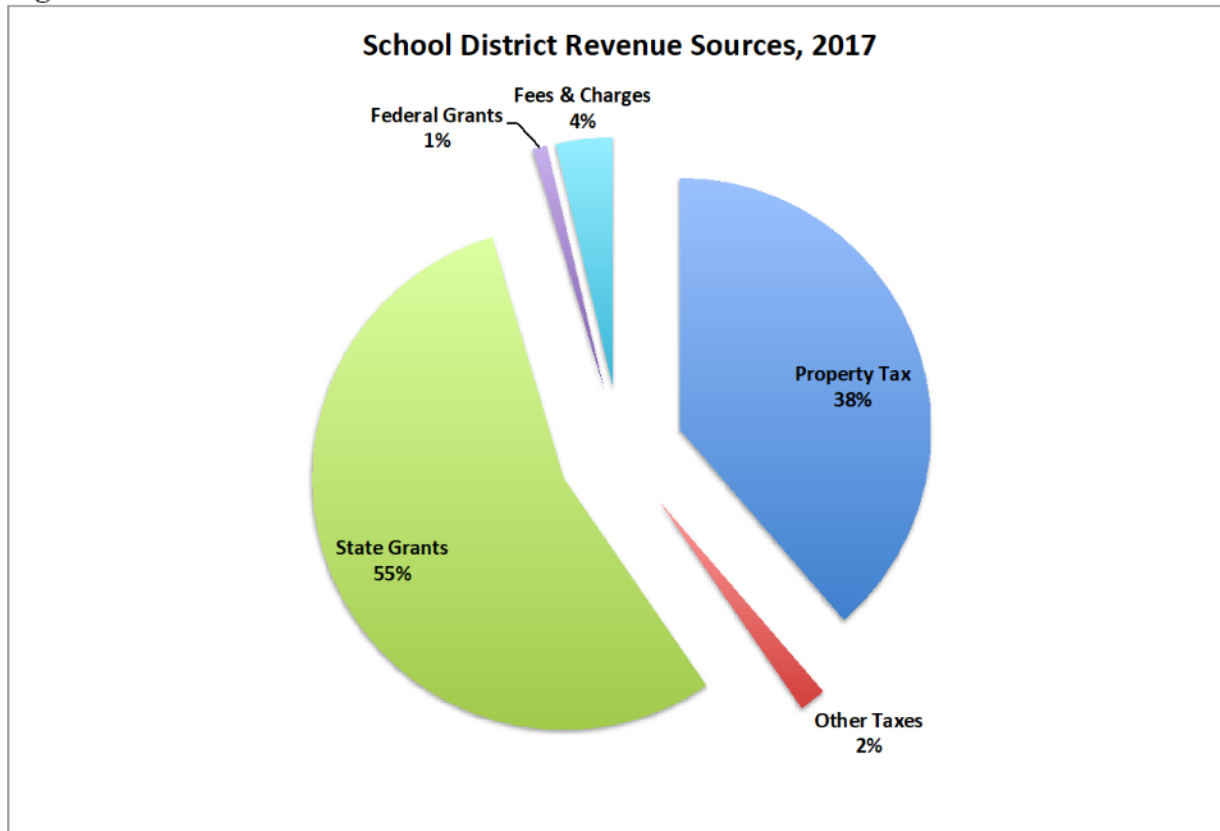
<sup>5</sup> Wallace Oates and William Fischel (2016) provide a comprehensive and more advanced discussion of these alternative perspectives on how to think about property tax incidence.

**Figure 7**



Source: U.S. Census Bureau

**Figure 8**



Source: U.S. Census Bureau

### **Policy Implications: What This All Means**

What might be said, then, in support of property taxes relative to the main alternatives? Relatively modest property taxes for the representative homeowner (about 1 percent of property value or \$200 monthly) coupled with taxes on business property support a myriad of important local government services and have permitted local governments to function independently. Targeted adjustments typically are available to alter property taxes for selected taxpayers with relatively high liability or with special circumstances. Property taxes are particularly important for funding local public schools and township governments, which tend to serve rural areas. Property taxes are relatively visible and thus contribute to government accountability. Property tax revenues have been responsive to economic growth and perhaps the most stable of all tax bases. Property taxes often are economically efficient compared to alternatives, especially if they serve as local benefit charges. Finally, property taxes may add to overall tax progressivity compared to the alternatives; importantly, property taxes are in most instances more progressive than sales taxes.

Of course, the property tax does present challenges. Because the tax base is often estimated through assessment of property value, which is unique to the property tax, allocating the resources to maintain a fair, efficient, and transparent assessment process is crucial to maintaining the advantages of the tax as well as taxpayer support of the tax. The fact that the tax

is based on continually changing market values of property creates inherent uncertainty for taxpayers and can create disconnect between income and tax liability. States can consider several means to bring more certainty, reduce variability, and make tax payments easier. Of course, because the property tax is complex and different than other taxes in many ways, it is important for state and local governments to engage with taxpayers so they have accurate information and remain well informed.

Assuming it is important to maintain fiscal independence for local governments, then a revenue source controlled by those governments seems necessary. If taxpayers or public officials object to property taxes on distributional, efficiency, or administrative grounds, the relevant issue is how property taxes compare to the alternatives. By almost every measure, the property tax seems to come out ahead.

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