

A Guide to Property Taxes: Property Tax Relief

NCSL Fiscal Affairs Program



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FOREWORD

The *Legislators Guide to Property Taxes: Property Tax Relief* is the second report in a three-part series of property tax publications produced by the NCSL Foundation Fiscal Partners. The purpose of this Fiscal Partners project is to introduce policymakers to property taxes and the associated policy issues. Even though the property tax is largely a local tax, state law provides the power to impose it. In addition, state legislatures develop property tax policies that have major effects on local governments' ability to raise revenue and provide services.

The first report provides an overview. It contains basic information about property taxes and how they are administered. This report, the second of the series, focuses on property tax relief policy. The third and final report will examine the role of property taxes in state and local finances. The three project reports are listed below.

1. *A Guide to Property Taxes: An Overview*
2. *A Guide to Property Taxes: Property Tax Relief*
3. *A Guide to Property Taxes: The Role of Property Taxes in State and Local Finances*

PREFACE AND ACKNOWLEDGMENTS

Several members of the National Conference of State Legislatures' (NCSL) Foundation for State Legislatures convened in 1991 to discuss how they could assist in the development of sound state fiscal policy. They concurred that they could pool their resources to examine specific areas of state fiscal policy and then make recommendations on these state fiscal policy issues. This group, known as the Foundation Fiscal Partners, supports the NCSL Fiscal Affairs Program in an ongoing effort to improve the quality of fiscal information available to state policymakers.

One of the continuing goals of the Foundation Fiscal Partners Project is to improve dialogue among state legislators, business representatives, and other organizations that are interested in and affected by state fiscal policy. Basic information is an important tool for state policymakers who must make decisions about how best to generate revenue in this new economic environment. This Foundation Fiscal Partners Project, *A Guide to Property Taxes*, will provide solid comparative information to assist legislatures with those decisions.

Property taxes, which generally are not well understood, make up one of the most complex revenue systems used at the state and local levels. This project consists of three stand-alone reports that together provide a resource for policymakers and others. The three project reports are listed below.

1. *A Guide to Property Taxes: An Overview*

The first product is an overview. This report examines the various types of taxable property and explains the mechanics of how property taxes are levied. It also examines various types of property and examines how states classify property and how they apply different assessment ratios.

2. *A Guide to Property Taxes: Property Tax Relief*

States provide property tax relief to citizens in a number of different ways, and the number and type of relief have increased significantly during the past few years. The second report of the Foundation Fiscal Partners Project discusses state relief efforts, including homestead exemptions, circuitbreaker programs and tax deferrals, among others.

3. *A Guide to Property Taxes: The Role of Property Taxes in State and Local Finances*
 During the past decade, the relationship between property taxes and state and local government services has changed significantly. Years of surplus revenue, coupled with voter dislike of the property tax, has resulted in major property tax cuts and has led states to shoulder a growing share of education costs. In addition, a number of states rely heavily on businesses and personal property to provide a large portion of property tax revenue. Sometimes, these taxes are not very straightforward or obvious. This report will examine some of these issues.

A Guide to Property Taxes is the sixth Foundation Fiscal Partners Project. Previous Foundation Fiscal Partners Project publications include:

Principles of a High-Quality State Revenue System (November 1992)

Fundamentals of Sound State Budgeting Practices (May 1995)

State Strategies to Manage Budget Shortfalls (December 1996)

Critical Issues in State-Local Fiscal Policy, Part 1: Sorting Out State and Local Responsibilities (July 1997) and

Part 2: A Guide to Local Option Taxes (November 1997)

The Appropriate Role of User Fees in State and Local Finance (June 1999)

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Mandy Rafool compiled the information for this report with assistance from Jeff Dale; however, much of the text was taken from prior NCSL publications written by former NCSL staff members Scott Mackey and Steve Gold. Judy Zelio, Corina Eckl and Leann Stelzer provided valuable editing advice, Anabliss Design designed the cover, and Lisa Houlihan prepared the report for publication.

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INTRODUCTION

The property tax, the primary tax source for local governments, was responsible for approximately 72 percent of all local tax revenue in FY 1999. Despite its importance as one of the "big three" state and local revenue sources (along with sales and income taxes), it is a much-maligned tax.

The property tax traditionally has been unpopular and is viewed as unfair by many taxpayers. This is particularly true for older Americans, who frequently live on fixed incomes and own their homes. In retirement, the ratio of property wealth to income tends to rise as income falls, so the burden of property tax increases.

In the 1970s, home values rose at unprecedented rates, which bred the taxpayer-initiated property tax revolts of the late 1970s, starting with California's Proposition 13. In addition, local government services expanded over time, resulting in the need for more revenue and higher property taxes.

As a result of growing taxpayer dissatisfaction, many states have implemented various tax relief measures to alleviate the property tax burden. Although some of these tax relief programs are open to the general population, some limit participation to senior citizens and other targeted groups such as veterans or the disabled.

What does it mean to provide property tax relief? Property tax relief represents an adjustment of the tax system. It is any action that reduces net property tax paid by individuals or businesses below what the tax would have been if no action had been taken to change the system. It frequently is targeted to specific groups, which may result in shifting the tax burden to others.

States provide property tax relief to citizens in a number of different ways. The late 1990s spawned a new era of property tax relief measures as states experienced consecutive years of surplus revenues. Lawmakers enthusiastically used excess state revenues to ease property tax burdens. This report focuses on types of state tax relief policies and describes individual state relief measures.

HOW PROPERTY TAXES WORK

A brief description of how property taxes are administered and levied is helpful in understanding how various tax relief programs work. The first step is to define some terms.

Taxable property is property that is subject to the property tax. It includes real property (land and buildings) and, to a lesser extent, personal property (automobiles, boats and other similar items). A few states exempt all personal property, and most states exempt all household personal property.

Market value is the actual value of the property expressed in monetary terms. The *assessed value* of property is the value placed on it for tax purposes. Property is frequently divided into different classes and assessed at a fraction of its market value. The *assessment ratio* is the proportion that the assessed value is to the market value of the property. Property classes may have different assessment ratios. For example, Illinois assesses residential property at 25 percent of market value and commercial property at 33.3 percent of market value.

The *nominal tax rate* is the rate applied to the assessed value of the property. The *effective tax rate* is the rate that results from dividing the tax bill by the actual market value of the home or other property.¹

Taxpayers and policymakers sometimes confuse the process of valuing property with the process of determining tax rates. Property values and tax rates are equally important in determining how much tax is due and how much property tax bills change from year to year.

The process of determining how much a homeowner owes has two separate steps:

- Determining the taxable value of the property, and
- Determining the amount of the tax on the basis of taxable value.

Determining Taxable Value

The first step involves determining the taxable value of the property. Assessors determine the value of property based upon standards established in state law. Usually, they consider sales of comparable homes or property types in the same area and improvements to the property.

After the assessor determines the market value of the property, it is multiplied by the assessment ratio to determine the taxable value (also known as assessed value), which may be different than the appraised market value if the ratio is less than 100 percent. State law

determines the assessment ratio. These ratios are applied because they allow some flexibility with tax policy and provide a way to levy more or less tax on different types of property without using different tax rates.

States vary considerably in the number of separate classes of property they differentiate. At one extreme are those that distinguish no classes; at the other are states that differentiate more than 10 classes. Homes and farms generally receive the most favored treatment under classification systems.

Determining the Tax

The second step after determining the taxable value is to determine the amount of the tax. The taxable value is multiplied by the local tax rate to determine the total tax due. In many states, the county, city, school district and special districts (flood control, fire protection, library, sewer and water districts) each account for a portion of the total local tax rate. Some states require that the voters approve tax rates, while others allow locally elected officials (county commissioners, city councils or school boards) to set tax rates without a popular vote. Some states actually set rates in state law by establishing maximum rates. States also may require a certain level of total levy to qualify for state aid or grants.

To establish the actual rate, the taxing authority determines how much property tax revenue it needs to generate to cover operating costs and debt. That amount is divided by the total taxable value of the property in the district to determine a tax rate. Property tax rates are partly a function of how much the local government has budgeted, which explains why they vary from year to year and from district to district. However, additional constraints are frequently imposed on local jurisdictions' ability to raise property taxes. These are discussed more on page 31.

Tax rates are commonly referred to as mill levies; a mill is one-tenth of a cent. A 1 mill levy means that the taxpayer owes \$1 for every \$1,000 in taxable property value. The rate applied usually will represent an aggregation of the various rates of different taxing jurisdictions where the property is located.

Because rates vary and different assessment ratios are applied, the best way to evaluate property taxes is through the effective rate, which is the proportion of tax dollars paid to market value. This is really the only way to compare the effect of property taxes across jurisdictions. The effective tax rate is calculated by dividing the property tax due by the market value of the property. For example, the effective tax rate of a house valued at \$200,000 and a property tax of \$2,000 is $\$2,000 / \$200,000 = 0.01 = 1.0$ percent. The 1.0 percent effective rate then can be compared with the effective rates of other properties in different locations.

THE ROLE OF THE LEGISLATURE

Even though the property tax is primarily a tax levied by local governments, states have a critical role because local tax systems are created in a framework dictated by state law. States determine the property tax base by deciding what property is taxable and what property is exempt. States also establish the basic revenue structure for local governments. In addition, state lawmakers create tax policies specifically designed to provide property tax relief.

Taxable Property

First, policymakers determine the tax base. They decide what type of property is taxable and what type of property is exempt. The need for tax relief depends in large part on how wide or narrow the tax base is. Tax bases vary tremendously across the states for real and personal property.

States exempt several categories of real property. Government-owned property and property owned by charitable organizations, schools, religious institutions and other special categories of property almost always are exempt. The list of exemptions is quite extensive in some states, which may cause financial hardship for local governments that rely heavily on property tax revenues to provide services. Some states reimburse local governments for lost revenues. For example, Rhode Island reimburses a portion of the lost taxes for certain property (private colleges, hospitals, correctional facilities) that are exempted by state law.

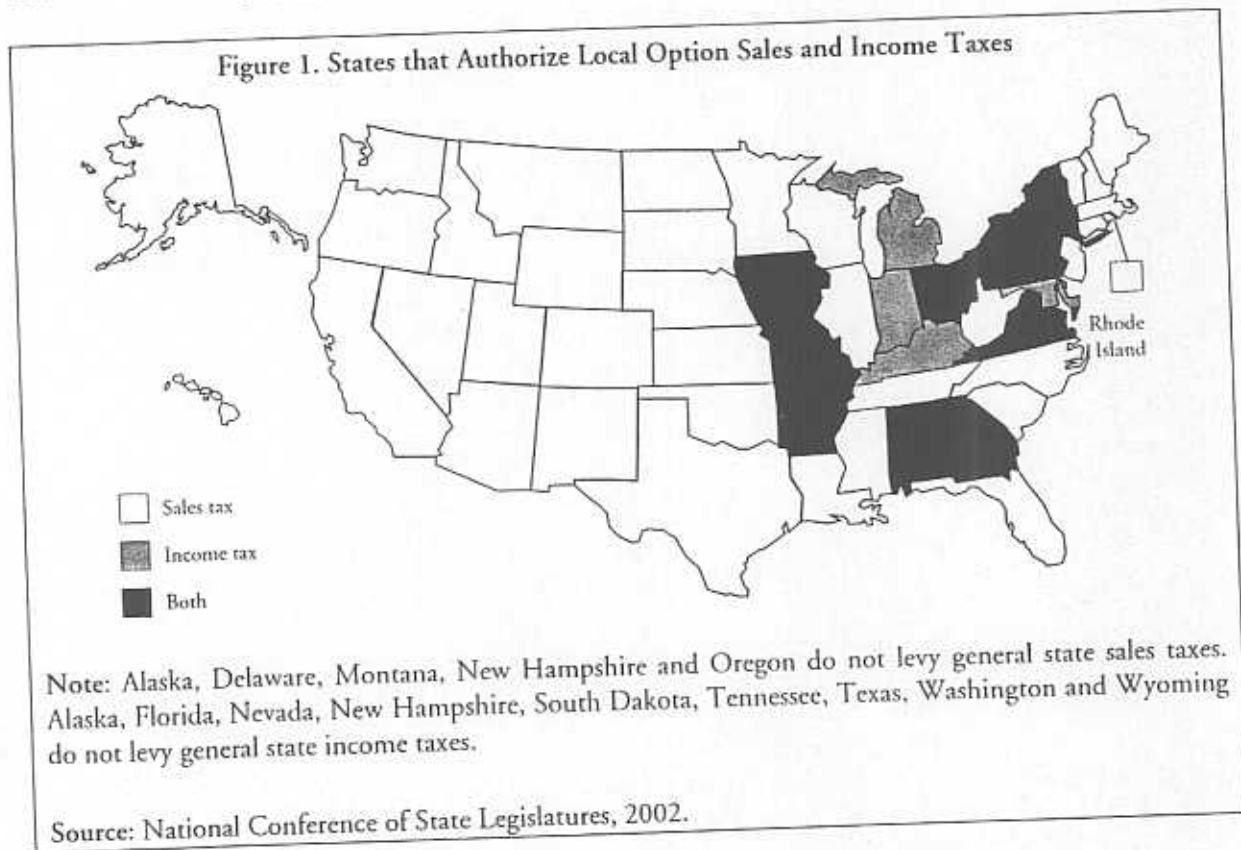
State exemptions for personal and intangible property also vary considerably. Most states exempt household goods such as furniture, but more than half the states tax motor vehicles as personal property. Other states, such as Florida, impose property taxes on intangible assets (stocks and bonds).

Treatment of business personal property also varies by state. Some states tax inventories as property, some do not. Some states exempt manufacturing equipment, some do not. The end result is that every state has a different list of exemptions, which causes wide variation in tax bases across the states. This may affect local governments' ability to provide services if they rely heavily on property tax revenue.

Local Revenue Structure

State tax policy also determines how much state and local governments rely on the property tax for revenue. States may levy statewide property taxes to generate state revenues, particularly if they lack one of the broad-based taxes such as sales or income taxes. New Hampshire, for example, has neither a state sales tax nor a state income tax; it levies a statewide property tax to cover its share of education funding.

The overall revenue system structure affects reliance on property taxes for local governments, as well. Although the property tax is the primary revenue source for local governments, many states give local governments the power to levy other taxes (see figure 1). Local governments then have the means to generate other revenues so they are not so dependent on property tax revenues. Local option sales taxes are the most common but states also authorize local income and excise taxes. Most states allow local governments to levy taxes on tourism-related activities such as lodging and meals.



In addition to establishing the property tax base and state and local revenue structures, state lawmakers develop policy specifically to provide property tax relief to taxpayers. Such policies focus on residential, agricultural and business property.

Property Tax Relief for Residential Property

States have a variety of programs to relieve property taxes (see table 1). Many of these programs are for all taxpayers, but some are targeted at the poor or near-poor. Many

programs single out senior citizens for extra benefits or are exclusively for senior citizens, but many states also have programs that have no age restrictions. Residential property tax relief can be divided into three major categories:

- Homestead exemptions and credits,
- Circuitbreakers, and
- Property tax deferrals.

State/ Jurisdiction	Homestead Exemption or Credit Programs	Circuitbreaker Program	Deferral Program
Alabama	✓		
Alaska	✓	✓	
Arizona	✓	✓	✓
Arkansas	✓		
California	✓	✓	✓
Colorado	✓	✓	✓
Connecticut	•	✓	
Delaware	L		
Florida	✓		✓
Georgia	✓		✓
Hawaii	✓	✓	
Idaho	✓	✓	
Illinois	✓	✓	✓
Indiana	✓		
Iowa	✓	✓	✓
Kansas* (state)	✓	✓	
Kentucky	✓		
Louisiana	✓		
Maine	✓	✓	✓
Maryland	✓	✓	L
Massachusetts	✓	✓	✓
Michigan	•	✓	✓
Minnesota	✓	✓	✓
Mississippi	✓		
Missouri		✓	
Montana	✓	✓	
Nebraska	✓		
Nevada	•	✓	
New Hampshire	✓		L
New Jersey	✓	✓	
New Mexico	✓	✓	
New York	✓	✓	
North Carolina	✓		
North Dakota		✓	✓
Ohio	✓		
Oklahoma	✓	✓	
Oregon	•	✓	✓
Pennsylvania	L	✓	L
Rhode Island	•	✓	

State/ Jurisdiction	Homestead Exemption or Credit Programs	Circuitbreaker Program	Deferral Program
South Carolina	✓		
South Dakota	*	✓	✓
Tennessee	✓		L
Texas	✓		✓
Utah	✓	✓	L
Vermont	*	✓	
Virginia	✓		L
Washington	✓	✓	✓
West Virginia	✓	✓	
Wisconsin	✓	✓	✓
Wyoming	✓	✓	✓
District of Columbia	✓	✓	✓
Total	49	34	25

Key:
 L = Local option program
 * = State has a homestead exemption for narrowly defined population groups such as veterans and the disabled.

Source: Commerce Clearing House, *State Tax Guide 2002*; NCSL calls to legislative fiscal offices, 2002.

In addition to the programs mentioned above, most states provide additional relief by providing a property tax deduction from—or credit against—the state income tax. States that base their income tax on federal adjusted gross income (majority of the states) allow deductions for property taxes paid. Some states allow a credit against the income tax. In Connecticut, for example, taxpayers receive a \$500 income tax credit against property taxes paid on primary residences or motor vehicles. In Wisconsin, taxpayers may claim a property tax or rent credit that is equal to 12 percent of property taxes, or rent constituting property taxes, paid on a principal residence up to a maximum of \$2,500 in property taxes. New Jersey offers either deductions or credits. Resident homeowners and tenants may deduct the entire amount of property tax paid up to \$10,000. The deduction is limited to property taxes paid on a taxpayer's principal residence. For tenants, property tax is calculated at 18 percent of rent paid. In lieu of the deduction, individuals may elect to claim a \$50 refundable credit, whether or not they pay income tax, provided they paid property taxes or rent constituting property taxes.

Homestead Exemption and Credit Programs

Homestead exemption and credit programs are the most widely used forms of property tax relief. Forty-eight states and the District of Columbia make homestead exemptions or credits available to at least one class of qualified homeowner. Only Missouri and North Dakota have no homestead exemption programs. In the states with programs, veterans and the disabled are the most common recipients of tax relief. However, this report focuses on homestead exemption and credit programs that are broadly available and does not include programs that are restricted only to veterans and the disabled.

History. Most homestead exemption programs were created during the Great Depression to give poor homesteaders property tax relief that would help them avoid foreclosure. The early homestead exemption programs generally were available to all homeowners. In 1957, New Jersey developed the first homestead exemption program targeted to older Americans. The 1960s and 1970s saw rapid growth in the number of states with targeted homestead exemption programs, and many of these new programs were targeted to the elderly. Since that time, states have tended to make the programs available more broadly to all households or to all low-income households. However, Colorado, the most recent state to adopt a homestead exemption, targets the elderly. Taxpayers over age 65 are allowed an exemption that applies to 50 percent of the first \$200,000 of actual value if the resident has lived in the home for at least 10 years.

How the Programs Work. *Homestead exemption programs* reduce property taxes on residential property by exempting a certain amount of a home's value from taxation. Homestead exemption programs usually are mandated by state law, with local governments either absorbing the revenue loss or shifting the tax burden to other property. In some cases, states reimburse local governments for some or all of the lost property tax revenue due to homestead exemption programs. Ohio, for example, reimburses local governments in full from the state general fund, at a cost of \$66 million in 2001. In addition, the state reimburses local governments for administering the homestead exemptions, at a cost of \$1.3 million. Maine also includes reimbursement for administrative costs, which added \$22,020 over the \$39 million reimbursement in FY 2002. In Wyoming, the homestead exemption is effective only when the Legislature appropriates funds to reimburse local taxing entities for the lost property tax revenue.

Homestead credit programs are state-financed and may involve direct rebates to taxpayers or, like homestead exemptions, may reduce property tax bills directly. These programs rebate a certain percentage of taxes due or provide a fixed credit to qualifying homeowners. New Jersey uses the latter method, providing a \$250 rebate for elderly and disabled homeowners. Arizona provides all homeowners with a credit of 35 percent of the school tax bill, up to \$500.

Amount of relief. The degree of property tax relief provided by homestead exemption and credit programs varies tremendously from state to state. The tax reduction depends upon the dollar amount of the exemption provided and the assessment ratio used to determine the taxable value of the property. In Louisiana, for example, each homeowner receives a \$7,500 homestead exemption, while California homeowners receive a \$7,000 exemption. Louisiana's program is much more generous, however, because the state uses a 10 percent assessment ratio to determine the taxable value of the home. A \$100,000 house in Louisiana has a taxable value of \$10,000, so the \$7,500 homestead exemption effectively exempts \$75,000 in actual value from property taxes. California's assessment ratio is 100 percent, so its homestead exemption is worth \$7,000 in actual value.

State	Property Value	Assessment Ratio	Taxable Value	Homestead Exemption	Value of Exemption
California	\$100,000	100%	\$100,000	\$7,000	\$7,000
Louisiana	\$100,000	10%	\$10,000	\$7,500	\$75,000

Source: NCSL, 2002.

After the homestead exemptions are calculated in the example above, the taxable value of a \$100,000 house in California becomes \$93,000, while the taxable value of a \$100,000 house in Louisiana becomes \$2,500. This represents a significant difference in benefit level because these are the amounts to which the property tax rate is applied when calculating the total tax bill.

Some states mandate homestead exemption programs but do not finance them. When this happens, local governments may shift the tax burden from exempt property to non-exempt property such as business property, vacation and second homes, and homes and other property owned by taxpayers who do not qualify for homestead exemptions. This is of particular concern in states with generous homestead exemptions that are available to the general population.

In addition, when a large portion of total taxable property is exempt, homestead exemption programs may not provide as much relief as they appear to provide. This is because a large amount of exempt property reduces the tax base and probably results in higher tax rates than would be necessary if all property were taxable.

Homestead credit programs avoid local tax shifts because they are state-financed. For this reason, homestead credit programs are popular with local officials. However, some states have found that homestead credit programs may increase local spending and taxes because local officials can increase tax rates without the full burden falling on local taxpayers.

Participation issues. With homestead exemption programs, participation is automatic because the exemption is built directly into the property tax bill received by the homeowner. In some states, however, homestead credit programs require qualifying homeowners to claim their credit, often on a separate form submitted with income tax forms. Because elderly homeowners are not required to file an income tax form, they may fail to claim their credit. State outreach programs are necessary to inform qualifying homeowners about the credit and how to apply for it; some states provide information about the credit with both income tax forms and property tax bills.

Targeting homestead exemption and credit programs. Table 3 summarizes the key features of homestead exemption and credit programs that are available broadly to older Americans and all households. In addition, the table shows states that offer homestead exemption programs without regard to the taxpayer's income and those that target programs to low-income taxpayers. Seventeen states offer the same benefits to elderly and non-elderly households, and 12 additional states offer benefits only to senior citizens. Twelve states and the District of Columbia have programs for the elderly and non-elderly alike but offer more generous programs to seniors.

Table 3. Homestead Credit and Exemption Programs			
State/ Jurisdiction	Age Limit	Description of Credits and Exemptions	Income Limit
Alabama (state)	All ages	Exemption of \$4,000 assessed value (equivalent of \$40,000) on state property taxes.	None
	65 and over	Full exemption from state property taxes.	\$12,000
Alabama (local)	All ages	Exemption up to \$2,000 assessed value (equivalent of \$20,000) from county taxes. In addition municipalities may exempt another \$2,000 (\$20,000).	None
	65 and over	Exemption up to \$5,000 assessed value (equivalent of \$50,000).	\$12,000
	65 and over	Full exemption from local property taxes if federal adjusted gross income is less than \$7,500.	\$7,500
Alaska (1)	All ages	Local option exemption of up to \$10,000 assessed value.	None
	65 and over	Exemption of up to \$150,000 assessed value. Municipalities may provide for an exemption beyond \$150,000 in hardship cases.	None
Arizona	All ages	Credit of 35% of school taxes. Maximum tax rebate is \$500.	None
Arkansas	All ages	Credit of \$300.	None
California	All ages	Exemption of up to \$7,000.	None
Colorado	65 and over	Exemption applies to 50% of the first \$200,000 of actual value if resident has lived in home for at least 10 years.	None
Connecticut	65 and over	Municipalities are authorized to grant homestead tax relief.	None
District of Columbia	All ages	Exemption of up to \$30,000 of assessed value.	
	65 and over	Decrease in property tax liability of 50 percent if household adjusted gross income is less than \$100,000.	\$100,000
Delaware	65 and over	A credit against school taxes assessed against principal residences is available for 50% of such taxes or \$500, whichever is less, if authorized by a majority vote of the whole school board of the local school district.	None
Florida	All ages	Exemption up to \$25,000 of assessed value.	None
	65 and over	Additional \$25,000 exemption.	\$20,000

Table 3. Homestead Credit and Exemption Programs

State/ Jurisdiction	Age Limit	Description of Credits and Exemptions	Income Limit
Georgia	All ages	Exemption to the amount of \$2,000 assessed value (equivalent of \$5,000).	None
	All ages	Homeowners who qualify for the homestead exemption also are qualified to receive the homeowner's tax relief credit of \$8,000 in 2002. The credit will be increased by \$2,000 per year until the total credit reaches \$18,000 (provided funds are available).	
	62 and over	Additional exemption up to \$10,000 of assessed value (\$25,000 equivalent) of property in an independent school district or county school district.	\$10,000
	62 and over	Exemption equal to the amount of the assessed value of a homestead that exceeds the assessed value of that homestead for the tax year immediately preceding the tax year in which this exemption is first granted. This exemption replaces all other homestead exemptions.	\$30,000
	65 and over	Additional exemption up to \$4,000 (\$10,000 equivalent) from state and county taxes.	\$10,000
Hawaii	All ages	Exemption up to \$40,000.	None
	55 to 59	Exemption up to \$60,000.	None
	60 to 64	Exemption up to \$80,000.	None
	65 to 69	Exemption up to \$100,000.	None
	70 and over	Exemption up to \$120,000.	None
Idaho	All ages	Exemption is lesser of \$50,000 or 50 percent of value for residential improvements.	None
Illinois	All ages	Exemption in homesteads, limited to a reduction in the equalized assessed value of homestead property equal to the increase in such value for 1978 and subsequent years above the equalized assessed value of such property for 1977, up to a maximum of \$3,500 (\$4,500 in Cook County). Property is assessed at 33.3% (counties over 200,000 inhabitants and 25% (counties under 200,000 inhabitants).	None
	65 and over	Exemption limited to a \$2,000 (\$2,500 in Cook County) maximum reduction from equalized or assessed value. Property is assessed at 33.3% (counties over 200,000 inhabitants and 25% (counties under 200,000 inhabitants).	

State/ Jurisdiction	Age Limit	Description of Credits and Exemptions	Income Limit
Indiana	All ages	A homestead credit is allowed at a rate of 10% through 2003. (Beginning in 2003, the credit is 20%.) The total deduction that may be received for any year is the lesser of one-half the assessed value of the realty or \$6,000. A county in which the county option income tax is in effect may increase the percentage credit allowed, but not to exceed 8%.	None
	65 and over	Exemption of \$3,000 or the lesser of one-half the assessed value. The value of the property may not exceed \$69,000.	\$25,000
Iowa	All ages	Credit in an amount equal to the levy on the first \$4,850 of actual value.	None
Kansas (state)	All ages	Exemption of \$20,000 assessed value for state property tax levy only.	None
Kentucky	65 and over	Exemption up to \$26,800.	None
Louisiana	All ages	Exemption up to 7,500 of assessed value (\$75,000 equivalent). Does not apply to municipal taxes except in Orleans Parish.	None
Maine	All ages	Exemption of up to \$7,000 assessed value.	None
Maryland	All ages	State credit applies against the tax due on the portion of reassessment that exceeds 10%. Local governments set a limit of 10% or less.	None
Massachusetts	70 and over	Exemption of \$2,000 assessed value or \$175, whichever is greater, provided value of the estate is not greater than \$20,000 (local option to increase benefits).	None
Minnesota	All ages	A homestead credit is allowed up to 4.4% of market value of the property, up to a maximum of \$304. The credit begins phasing out for properties valued at \$76,000 and above.	None
Mississippi	All ages	Exemption for the first \$7,500 assessed value (\$75,000 equivalent). This also translates to a \$300 credit.	None
Montana	All ages	All residential properties receive a 31 percent exemption.	None
Nebraska (2)	65 and over	Exemption is the taxable value of the homestead up to \$40,000 or 80% of the average value of homes in the county, whichever is greater. Exemption varies with income.	Varies
New Hampshire	65 and over	Exemption of at least \$5,000 if income is below \$13,400 single or \$20,400 married, and asset value is below \$35,000.	\$13,400 / \$20,400

State/ Jurisdiction	Age Limit	Description of Credits and Exemptions	Income Limit
New Jersey (3)	All ages	New Jersey SAVER program provides homeowners a homestead exemption rebate equal to the property value amount, which is the lesser of \$45,000 or the highest equalized value of the homestead for 1997 or subsequent years, multiplied by the school tax rate for the municipality in which the homestead is located.	None
	65 and over 65 and over	Credit of up to \$250. Homestead property tax reimbursement is provided for the portion of property tax for the current year that exceeds the property tax paid in base year (the year the claimant became eligible for the program).	\$10,000 \$38,475/ \$47,177
New Mexico	All ages	Exemption up to \$2,000 assessed value (\$6,000 equivalent).	
New York	All ages	Up to \$30,000 assessed value is exempt from school taxes.	None
	65 and over	Up to \$50,000 assessed value is exempt from school taxes.	None
	65 and over	Local option exemption up to 50 percent assessed value. The law allows each county, city, town, village or school district to set the maximum income limit at any figure between \$3000 and \$20,500. Localities have the further option of granting an exemption of less than 50% to senior citizens whose incomes exceed the local income limit up to \$28,900.	Varies
North Carolina	65 and over	Exemption on the greater of \$20,000 or 50% of appraised value.	\$18,000
Ohio	All ages	Real property taxes on homesteads are reduced by 12.5 percent.	None
	65 and over	Reduction in assessed value by the lesser of a percentage (up to 75%) or flat amount up to \$5,000 (equivalent to \$14,285) depending on income.	\$24,100 (for 2002) adjusted annually
Oklahoma	All ages	Exemption of \$1,000 of assessed value (has higher equivalent value).	
	All ages	Additional exemption of \$1,000 assessed value.	\$20,000
Pennsylvania		Local option homestead exemption may be no larger than one-half of the median assessed value of homestead property.	
Rhode Island		Local governments may provide exemptions.	
South Carolina	All ages	Residential property is exempt from property taxes levied for school operations.	
	65 and over	Exemption of \$50,000 of fair market value.	None
Tennessee	65 and over	Exemption on first 18,000 of full market value.	\$12,000

State/ Jurisdiction	Age Limit	Description of Credits and Exemptions	Income Limit
Texas	All ages 65 and over	Exemption of \$3,000 appraised value for county purposes and exemption of \$15,000 appraised value for school districts. Taxing units may exempt a percentage of the appraised value of a residence (minimum exemption, \$5,000) but not to exceed 20%. Exemption of \$25,000 appraised value for school district purposes and a minimum exemption of \$3,000 appraised value by local governments. Taxing units may exempt a percentage of the appraised value of a residence (minimum exemption \$5,000), not to exceed 20%.	None
Utah	All ages	45 percent of market value of primary residence is exempt.	None
Virginia	65 and over	Local option to exempt up to 100% assessed value, provided net worth is not more than \$240,000.	\$62,000
Washington	61 and over	Exemptions vary with income. A full exemption may be granted if combined disposable income is less than \$30,000.	Varies
West Virginia	65 and over	Exemption of up to \$20,000 (\$33,300 equivalent) assessed value.	None
Wisconsin	All ages All ages	The lottery and gaming credit against property tax is allocated to every property used as the owner's principal dwelling in an amount determined by multiplying the school tax rate by the credit base or fair market value of the property, whichever is less. The school levy tax credit against property tax is distributed by the state to municipalities based on their share of statewide levies for school purposes during the three preceding years. Within municipalities, credits are allocated according to each property's percentage share of the municipality's total taxable value (4).	None None
Wyoming (5)	All ages	Credit varies according to tax rate and assessed value.	None

Notes: This table does not include programs restricted to special groups, such as veterans and the disabled. Most states have these programs.

1. Alaska—Renters age 65 and over are eligible for a renter relief program calculated according to rent paid and the property tax rate.
2. Nebraska—To be eligible, the homestead maximum value may not exceed \$95,000 or 150 percent of the average value of single family residential property in the county, whichever is greater, plus \$20,000.
3. New Jersey—Homeowners may not receive both the New Jersey SAVER exemption and the Homestead Property Tax Rebate (circuitbreaker program). They will receive whichever one is larger.
4. Wisconsin—All taxable property (including a primary residence) is eligible for the school levy tax credit.
5. Wyoming—The credit is in effect only if the Legislature appropriates fund to reimburse local taxing entities for the lost revenues. It has not been funded for several years.

Source: NCSL, updated using Commerce Clearing House, *State Tax Guide 2002*; NCSL calls to state legislative fiscal offices, 2002.

State decisions to target programs are based upon several factors. Those that choose to provide benefits to all homeowners without regard to income often are using exemption and credit programs as part of a broader policy to shift taxes from the local to the state level or from residential property to non-residential property. Arizona's credit was adopted as part of a state tax increase to fund schools and also to provide property tax relief. Wisconsin's exemption was tied to passage of a state lottery, with funds earmarked for property tax relief.

Targeting benefits to low-income households. A number of states require homeowners to meet income criteria in addition to age requirements. Targeting programs in this manner allows states to provide tax relief to elderly homeowners who are on fixed incomes without providing relief to wealthy retirees. This reduces the revenue loss to local governments or to the state in the case of homestead credits or state-reimbursed homestead exemption programs.

New Jersey provides a \$250 property tax reduction for elderly households with incomes below \$10,000. North Carolina gives homeowners age 65 and older with incomes below \$18,000 an exemption on the greater of \$20,000 or 50 percent of appraised value. Elderly homeowners in Ohio with incomes below \$24,000 receive a \$14,285 homestead exemption in addition to the 12.5 percent property tax credit that is available to all homeowners regardless of age.

Circuitbreaker Programs

One of the key drawbacks to homestead exemption and credit programs, even those that are carefully targeted to low-income taxpayers, is their inability to provide tax relief to renters. For this reason, 26 states and the District of Columbia have property tax relief programs that provide state-funded tax relief to renters and homeowners alike. Five states—Idaho, Oklahoma, South Dakota, Washington and Wyoming—have programs only for homeowners, while Alaska and Oregon offer relief programs only to renters. These programs, called circuitbreakers, are named after the electrical devices that shut off electric power to prevent circuits from overloading. Property tax circuitbreaker programs prevent property

taxes from "overloading" the taxpayer. When property taxes exceed a certain percentage of the taxpayer's income, states provide a rebate.

The circuitbreaker contrasts with a homestead exemption or credit in that the amount of relief depends on both income and the property tax bill. Local governments like circuitbreaker programs because they are state-financed and do not reduce the local tax base. In fact, some circuitbreaker programs probably allow local governments to levy higher property taxes and spend more than they would without the programs.

History. The first circuitbreaker program was adopted in Wisconsin in 1964, and by the end of the 1960s five states had adopted such a program. However, it was during the 1970s that circuitbreaker programs were widely adopted. Twenty-five additional states adopted programs between 1970 and 1979¹. A total of 33 states and the District of Columbia currently have circuitbreaker programs for homeowners, renters or both.

How the programs work. Circuitbreaker programs are property tax relief programs that target relief to low-and moderate-income homeowners and renters. Program specifics vary by state, but, in general, benefits are inversely proportional to income—meaning as income increases, benefits decline. Most states set a maximum income above which homeowners and renters may not qualify for the program. However, a few states set an asset limit instead. For example, Maryland sets an asset limit of \$200,000. All states set a maximum benefit amount as well, ranging from \$125 in West Virginia to \$2,000 in North Dakota.

Circuitbreaker programs for homeowners may be designed in two ways: sliding scale or threshold. Under the sliding scale approach, the state sets rebate amounts for qualified homeowners and renters. The amount of the rebate can be either a fixed amount or a percentage of tax paid. In Nevada, homeowners with incomes below \$12,700 receive a rebate of 90 percent of tax paid, subject to a maximum rebate of \$500. The allowable percentage of tax decreases as income increases, until benefits are fully phased out at \$21,500. Other sliding scale programs rebate fixed amounts instead of a percentage of tax paid. Arizona provides a fixed credit of \$502 for households with incomes below \$2,500; the rebate falls by \$22 or \$23 for each additional \$150 in household income, until it is phased out completely for households with incomes above \$5,500.

Threshold circuitbreaker programs are designed to ensure that property taxes do not exceed a certain percentage of the household's income. Homeowners in Vermont, provided household income is less than \$47,000, receive property tax rebates equal to the amount by which the taxes exceed a percentage of income, subject to a maximum benefit of \$1,500. If income is less than \$5,000, taxpayers are entitled to a rebate on property taxes that exceed 3.5 percent of their income; if income is more than \$5,000 but less than \$10,000, taxpayers are entitled to a rebate on property taxes over 4 percent of their income and so on until income reaches the maximum.

Circuitbreaker programs for renters are in most cases identical to homeowner programs, but one additional step is involved. Renters pay property taxes indirectly, in the form of higher rents, rather than directly to local governments. Therefore, the state is required to make some assumptions about how much of the rent payment represents property taxes. This "property tax rent equivalent" varies from state to state and region to region, depending upon the supply and demand for rental units. In tight markets, landlords have more ability

to pass taxes on to renters. Property tax rent equivalents vary from 6 percent in New Mexico to 35 percent in Connecticut.

Tables 4 and 5 provide details on state circuitbreaker programs for homeowners and renters.

State/Jurisdiction	Age Limit	Income Limit (single/joint)	Maximum Benefit
Arizona	65 and over	\$3,750/\$5,550	\$502
California	62 and over	\$37,119	\$473 (96% of tax on first \$34,000)
Colorado	65 and over	\$11,000/\$14,700	\$600
Connecticut	65 and over	\$24,500/\$30,000	\$1,000/\$1,250
District of Columbia	None	\$20,000	\$750
Hawaii (1)			
Idaho	65 and over	\$19,570	\$1,200
Illinois	65 and over	\$21,218/\$28,480	\$700
Iowa	All ages (2)	\$16,500	\$1,000
Kansas	55 and over or households with dependent children	\$25,000	\$600
Maine	62 and over All ages	\$7,400/\$9,200 \$25,700/\$40,000	\$400 \$1,000
Maryland	All ages	Net worth less than \$200,000	Up to taxes paid on the first \$150,000 assessed value
Massachusetts	65 and over	\$40,000/ \$60,000 residence less than \$400,000	\$750
Michigan	All ages	\$82,650	\$1,200
Minnesota (3)	All ages	\$80,180	\$1,500
Missouri	65 and over	\$25,000/\$27,000	\$750
Montana	All ages	\$16,457/\$21,9421	20% to 70% rate reduction, depending on income
	62 and over	\$45,000	\$1,000
Nevada	62 and over	\$21,500	\$500
New Jersey (4)	65 and over	\$35,000/\$70,000	\$775
New Jersey, continued	All ages	40,000	\$90
New Mexico	65 and over	\$16,000 (higher in some counties)	\$250
New York	65 and over	\$18,000 value of property cannot exceed \$85,000	\$375
	All ages	\$18,000 value of property cannot exceed \$85,000	\$75

Table 4. Property Tax Circuitbreaker Programs for Homeowners

State/Jurisdiction	Age Limit	Income Limit (single/joint)	Maximum Benefit
North Dakota	65 and over	\$14,000	\$2,000 reduction in taxable value
Oklahoma	65 and over	\$12,000	\$200
Pennsylvania	65 and over	\$15,000	\$500
Rhode Island	65 and over	\$30,000	\$250
South Dakota	65 and over	\$9,750/\$12,750	35% reduction in taxes due/55% reduction in taxes due
Utah	65 and over	\$23,873 (5)	\$637
Vermont	All ages	\$47,000	\$1,500
Washington	61 and over	\$30,000	\$50,000 or 60% assessed value
West Virginia	65 and over	\$5,000	\$125
Wisconsin	All ages	\$24,500	\$1,160
Wyoming	All ages	180% of federal poverty level	\$500/\$600

Notes:

1. Hawaii—Circuitbreaker programs vary by county.
2. Iowa—All ages may receive the credit when state revenues are sufficient; otherwise, senior citizens have priority.
3. Minnesota—Residents may be eligible for a special property tax refund if net property tax on the homestead increased by more than 12 percent from 2001 to 2002 and the increase was \$100 or more.
4. New Jersey—Homeowners may not receive both the New Jersey SAVER exemption and the Homestead Property Tax Rebate (circuitbreaker program). They will receive whichever is larger.
5. Utah—Income limit is adjusted in accordance with the federal cost-of-living adjustments. The figures shown are the 2002 amounts. Additional tax relief may be granted at the discretion of counties or the tax commission.

Source: NCSL, updated using Commerce Clearing House, *State Tax Guide 2002*; NCSL calls to state legislative fiscal offices, 2002.

Table 5. Property Tax Circuitbreaker Programs for Renters

State/Jurisdiction	Age Limit	Income Limit	Maximum Benefit (1)	Property Tax Rent Equivalent (1)
Alaska	65 and over	(1)	\$502	\$502
Arizona	65 and over	\$3,750 / \$5,550	\$348	\$348
California	62 and over	\$37,119	\$600	20%
Colorado	65 and over	\$11,000 / \$14,700	700/900	35%
Connecticut	65 and over	\$16,200 / \$20,000	750	15%
District of Columbia	All ages	\$20,000	\$50	N/A
Hawaii (2)	All ages	\$30,000	\$100	N/A
	65 and over	\$30,000	\$700	25%
Illinois	65 and over	\$21,218 / \$28,480	\$1,000	23%
Iowa	All ages (3)	\$16,500		

Table 5. Property Tax Circuitbreaker Programs for Renters

State/ Jurisdiction	Age Limit	Income Limit	Maximum Benefit	Property Tax Rent Equivalent
Kansas	55 and over or any age with dependent children	\$25,000	\$600	15%
Maine	62 and over	\$7,400 / \$9,200	\$400	25%
	All ages	\$25,700 / \$40,000	\$1,000	18%
Maryland	60 and over	Net worth less than \$200,000	\$600	15%
	All ages (4)	Net worth less than \$200,000	\$600	15%
Massachusetts	65 and over	\$41,000 / \$61,000 residence less than \$40,000	\$750	25%
Michigan	All ages	\$82,650	\$1,200	20%
Minnesota	All ages	\$43,250	\$1,230	19%
Missouri	65 and over	\$25,000 / \$27,000	\$750	20%
Montana	62 and over	\$45,000	\$1,000	15%
Nevada	62 and over	\$21,500	\$500	8.5%
New Jersey	65 and over	\$100,000	\$775	18%
	All ages	\$40,000	\$30	18%
New Mexico (5)	65 and over	\$16,000 (higher in some counties)	\$250	6%
New York	65 and over	\$18,000 value of property cannot exceed \$85,000	\$375	25%
	All ages	\$18,000 value of property cannot exceed \$85,000	\$75	25%
North Dakota	65 and over	\$13,500	\$240	20%
Oregon	58 and over	\$10,000	\$2,100	20%
Pennsylvania	65 and over	\$15,000	\$500	20%
Rhode Island	65 and over	\$30,000	\$250	20%
Utah	65 and over	\$23,873 (6)	\$637	Varies
Vermont	All ages	\$47,000	\$1,500	20%
West Virginia	65 and over	\$5,000	\$125	12%
Wisconsin	All ages	\$24,500	\$1,160	25% (20% if heat is included in rent)

Notes:

1. Alaska—Benefit and income guidelines vary depending upon local mill levy.
2. Hawaii—Renters may claim a credit against their income tax if income is under \$30,000 and rent exceeds \$1,000. Senior citizens may claim double the credit.
3. Iowa—All ages may receive the credit when state revenues are sufficient; otherwise, senior citizens have priority.
4. Maryland—Renters under age 60 who have gross incomes below the federal poverty threshold and have at least one dependent under age 18 living with them.
5. New Mexico—Counties have the option of establishing a program to provide low-income individuals with a residential property tax rebate of up to \$350 per year.
6. Utah—Income limit is adjusted in accordance with the federal cost-of-living adjustments. The figures shown are the 2002 amounts. Additional tax relief may be granted at the discretion of counties or the tax commission.

Source: NCSL, updated using Commerce Clearing House, *State Tax Guide 2002*; NCSL calls to legislative fiscal offices, 2002.

Targeting issues. By design, circuitbreaker programs are targeted to low- and moderate-income households. Although qualifying income thresholds in states such as Michigan, Minnesota, New Jersey and Vermont are set relatively high, circuitbreaker formulas are designed to provide most of the relief to those at the lower end of the income scale.

In order to control the cost of the programs, most states target the elderly. Of the 31 states and the District of Columbia with circuitbreaker programs for homeowners, only six—Maryland, Michigan, Minnesota, Vermont, Wisconsin and Wyoming—and the District of Columbia allow all households to participate without regard to age. Some additional states—including Maine, Montana, New Jersey and New York—allow all households to participate but provide more generous benefits to the elderly. Iowa taxpayers must be age 23 or older and there must be enough revenue to fund the program. If not, senior citizens have priority. In Kansas taxpayers under age 55 must have dependent children under age 18 to qualify.

Most renter programs also are targeted to seniors. All 28 states with renter programs allow the elderly to participate, while only four states and the District of Columbia provide the same benefits to all renters without regard to age. Hawaii, Maine, New Jersey and New York allow all renters to participate but offer more generous tax relief to the elderly.

Several key policy considerations exist for state circuitbreaker programs. The first is cost. States often limit benefits to the elderly as a means of controlling program costs. Low-income homeowners and renters who are age 65 or younger may be equally deserving of relief, but extending programs to all taxpayers increases program costs. However, during the surplus years of the late 1990s, several states expanded their programs. Since 1998, Arkansas, Illinois, Massachusetts, New Jersey and New York expanded their circuitbreaker programs; generally, by raising income limits or the amount of the benefit.

The second policy consideration is formula design. Both threshold and sliding scale programs can be designed to target benefits to either lower or middle income taxpayers. Most existing threshold programs, which rebate property taxes over a certain percentage of household income, provide greater benefits at the lower end of the income scale. If state policymakers' primary concern is regressivity (taxes are regressive when households pay proportionately more relative to income), threshold programs effectively minimize or eliminate the regressivity of state-local tax structures. Sliding scale programs also can be

designed to target greater benefits to very low-income homeowners and renters, but in practice most provide greater benefits to middle income taxpayers.

A third policy consideration is the effect of circuitbreaker programs on local tax levels and spending. One of the key goals of circuitbreaker programs is to provide targeted tax relief to individuals, while avoiding sweeping reductions for businesses and wealthy individuals who may not need them. Some programs, however, may allow local governments to increase property taxes and spending because some residents will not bear the full burden of the increase. Under a threshold program, for instance, a higher tax rate that results in a \$100 higher tax bill for local taxpayers could mean an additional \$100 of state tax relief to qualifying homeowners and renters. With a sliding scale program, the taxpayer would receive the same amount of relief regardless of incremental increases in local taxes if the formula provides for a fixed benefit instead of a percentage of property tax liability.

Property Tax Deferral Programs

Property tax deferral programs allow low-income elderly homeowners to defer payment of property taxes. Deferral programs are available to homeowners in 24 states and the District of Columbia, although in six of these states the programs are offered at the option of local governments. Table 6 provides details about deferral programs.

State/ Jurisdiction	Age Limit	Income Cap	Description
Arizona	70 and over	\$10,000	Deferral of property taxes on primary residences valued at \$150,000 or less.
California	62 and over	\$24,000	Residential homeowners may postpone payment of property taxes until death, sale of the residence, or cessation of occupancy.
Colorado	65 and over	None	People age 65 or older may defer their previous year's realty taxes. Local option to permit taxpayer to work off tax liability.
District of Columbia	None	None	Qualified owners of residential realty may apply for deferral each year if residential realty tax owed is excess of 110% of the preceding year's tax.
Florida	None 65 and over	None \$10,000	The amount deferred is that portion of taxes exceeding 5% of the applicant's household income. Deferral of all of homestead. (People entitled to the increased homestead exemption may defer that portion of the taxes that exceeds 3% of the applicant's household income.) Interest is imposed on the amount of taxes deferred.

State/ Jurisdiction	Age Limit	Income Cap	Description
Florida, continued	70 and over	\$12,000	Deferral of all of homestead. (People entitled to the increased homestead exemption may defer that portion of the taxes that exceeds 3% of the applicant's household income.) Interest is imposed on the amount of taxes deferred.
Georgia	62 and over	\$15,000	If the homestead for which a deferral is requested has an assessed value of \$50,000 or more, the deferral applies only to the taxes on the portion of the assessed value that is \$50,000 or less. The total amount of deferred taxes may not exceed 85% of the homestead's value.
Illinois	65 and over	\$30,000	Deferral of the full amount.
Iowa			Recipients of federal Supplemental Security Income (SSI) may suspend property tax payments until property is sold.
Maine	65 and over	\$32,000	Deferral of the full amount.
Maryland	65 and over	Local limits	Local option: Counties and cities may defer realty taxes.
Massachusetts	65 and over	\$20,000 (\$40,000 if adopted by a municipality)	Deferral of the full amount.
Michigan	65 and over 62 and over	\$10,000 as indexed for inflation \$25,000	Collection of special assessments on homestead properties of not less than \$300 may be deferred. Full deferment of the payment of summer property taxes on homestead property.
Minnesota	65 and over	\$60,000	The maximum deferred amount is 75% of the estimated market value of the home. Also affecting the amount of the deferral is a maximum payment amount, which is 3% of the applicant's prior year's household income.
New Hampshire	65 and over	None	Local option tax deferral may be granted annually for all or part of the taxes due, plus annual interest at 5%. The total tax deferrals on a particular property may not be more than 85% of its equity.
North Dakota	65 and over	\$14,000	Deferral applies to all special assessments.
Oregon	62 and over	\$32,000	Deferral applies to all property taxes and special assessments.

Table 6. Property Tax Deferral Programs

State/ Jurisdiction	Age Limit	Income Cap	Description
Pennsylvania	None	\$15,000	Local option to defer property tax increases. A deferral may not be granted if the amount of the deferred taxes, the liens on the residence, and the principal remaining on the taxpayer's mortgages for the residence is greater than 85% of the residence's market value. A deferral also will be denied if the outstanding principal on all mortgages is more than 70% of the residence's market value.
South Dakota	70 and over	\$16,000/ \$20,000	Deferral applies to all taxes due if the person has owned the dwelling for at least three years has been a state resident for at least five years.
Tennessee	65 and over	\$12,000 (local option to raise to \$25,000)	Local option to defer payment of property taxes. The deferral applies to no more than \$60,000 of the value (local option to remove this limit). In addition, local governments may defer all taxes above 1979 levels if the homestead is less than \$50,000. Deferred taxes are subject to a 10% interest rate.
Texas	65 and over	None	The deferral is for all delinquent property taxes. Interest is added at the rate of 8% per year. Any penalty and interest that was due on the tax bill for the home before the tax deferral will remain on the property and also become due when the tax deferral ends.
Utah	65 and over	Up to county	Local option to defer taxes for the elderly and low-income homeowners.
Virginia	65 and over	\$50,000	Local option to provide a deferral of realty taxes if combined net worth, excluding the value of the dwelling and lot, is not over \$75,000. Specific counties, cities and towns may raise the maximum total combined income.
Washington	60 and over	\$34,000	Deferral applies to 80% of the equity value in the home.
Wisconsin	65 and over	\$20,000	Loans to pay property taxes are available as a property tax deferral. The maximum loan is \$2,500 annually or the amount of property tax. The total loan, with interest, is repaid from the sale of the property.
Wyoming	62 and over	150 percent of federal poverty level	Deferral applies to payment of up to one-half of real property taxes owed on the person's principal residence if it is located on not more than 40 acres of land. The deferral is also available to any owner of residential real property who purchased the property before Dec. 31, 1987.

Source: NCSL, updated using Commerce Clearing House, *State Tax Guide 2002*; NCSL calls to state legislative fiscal offices.

Deferred property taxes become a lien against the value of the taxpayer's home. When the taxpayer sells the home, back taxes plus interest become due. If the homeowner dies, deferred taxes must be paid when the estate is settled.

Some states allow for the deferral of all taxes due; the other states defer a portion of the tax due or use deferral programs to ensure that property tax bills do not grow by more than a set percentage. Deferral programs are the most targeted, cost effective method of alleviating the concern that elderly homeowners might lose their homes because they cannot afford taxes. Cash-poor but asset-rich older Americans can use the value of their home to keep property taxes at an affordable percentage of their income. Florida's program, for example, ensures that property taxes do not exceed 3 percent of senior citizens' income.

Deferral programs produce a short-term loss of local revenue—or in some cases, state revenue—because the state may reimburse local governments for deferred taxes. However, deferral programs cost less in terms of lost revenue than homestead exemptions or circuitbreaker programs because participation rates generally are low. Anecdotal reports from states with deferral programs reveal that many elderly homeowners are reluctant to have a lien placed against their home.

Property Tax Relief for Agricultural Property

Agricultural property is another class of property that frequently is targeted by state lawmakers for tax relief. The tax benefit generally is provided in the way land is valued. Although most non-agricultural property is valued according to its market value, this may not be the case with agricultural property. Such property is usually valued according to "current actual use," which typically is a much lower value. Use value attempts to determine a value based upon the actual production of the property and to remove other influences that affect the market value of real estate. A table illustrating the way states tax agricultural property is included as Appendix C in the first property tax publication of this series, *A Guide to Property Taxes: An Overview*.

States provide tax relief to farmers in ways other than adopting the current use valuation standard. Some states classify farmland and assign a lower assessment ratio to determine the taxable value, which results in lower property taxes. In Missouri agricultural property is assessed at 12 percent, and residential property is assessed at 19 percent. States also may provide tax relief to farmers directly in the form of credits or exemptions. Iowa provides both an agricultural land tax credit and a family farm credit. The agricultural land credit is available to all owners of agricultural land of 10 acres or more if the use is for agricultural or horticultural purposes. The family farm credit is designed to give an additional property tax break to individuals who are actively engaged in farming. Minnesota also has agricultural tax credits that operate similar to homestead credits for agricultural land.

Because agricultural land is subject to less tax, it is a desirable classification. Depending on the state and its administrative rulings, agricultural use may be defined rather loosely, thereby allowing some questionable inclusions. To deal with this issue, most states have established certain threshold tests to establish whether the land in question is truly being used for agricultural purposes. For example, Florida has a procedure for determining when agricultural use value no longer is appropriate. When the sales price of a tract of land is

greater than or equal to three times the use value of the tract, it no longer is considered agricultural land. Montana currently is examining how agricultural land is taxed. This is primarily due to the fact that many acres of land are being bought for recreation and tourism purposes, yet still qualify as agricultural land for tax purposes.

Property Tax Relief for Business Property

The tax treatment of business is very important because businesses own a large proportion of real and personal taxable property. In addition, a larger portion of the overall property tax burden frequently falls on business property as a result of policies that have been adopted to provide relief to homes and farms. Therefore, lawmakers may also look for ways to ease the business tax burden. Property tax relief for business property can be categorized in two ways:

- Broad-based relief programs that are intended to lower property tax burdens and that apply to all businesses.
- Targeted property tax relief as an outcome of state and local economic development programs.

Broad-Based Relief

State policymakers grant broad-based property tax relief to businesses in a variety of ways. Generally, they provide a full or partial exemption for any of the following: land, buildings, machinery, equipment, inventories or other business personal property.

A common way for states to provide property tax relief to businesses is by allowing exemptions for manufacturing machinery and equipment. For example, Wisconsin exempts manufacturing machinery and specific processing equipment used exclusively and directly in manufacturing, excluding buildings. The list of states with this type of exemption is quite extensive.

States also provide relief to business by exempting inventories from the property tax. This is particularly beneficial to industries, such as manufacturing and retail, that tend to stockpile goods. Indiana doesn't exempt inventories, but lawmakers recently passed a new income tax credit—businesses will pay their inventory taxes but will receive a credit for part of this payment to reduce their income taxes. The credit is scheduled to go into effect in 2003. Table 7 shows state tax treatment of inventories.

Table 7. Tax Treatment of Inventories by State

State/Jurisdiction	Inventories Taxable?		Comments
	Yes	No	
Alabama		✓	
Alaska	✓		Local option to exempt.
Arizona		✓	
Arkansas	✓		
California		✓	
Colorado		✓	

State/Jurisdiction	Inventories Taxable?		Comments
	Yes	No	
Connecticut		✓	
Delaware		✓	
District of Columbia			
Florida		✓	
Georgia	✓		Generally taxable, but local option to exempt.
Hawaii		✓	
Idaho		✓	
Illinois		✓	
Indiana	✓		
Iowa		✓	
Kansas		✓	
Kentucky	✓		Subject to state property tax.
Louisiana	✓		
Maine		✓	
Maryland		✓	
Massachusetts		✓	
Michigan		✓	
Minnesota		✓	Specified items are taxable.
Mississippi	✓		
Missouri		✓	
Montana		✓	
Nebraska		✓	
Nevada		✓	
New Hampshire		✓	
New Jersey		✓	
New Mexico		✓	
New York		✓	
North Carolina		✓	
North Dakota		✓	
Ohio	✓		
Oklahoma	✓		
Oregon		✓	
Pennsylvania		✓	
Rhode Island	✓		Manufacturers' inventory is exempt and the tax on wholesale and retail inventory is being phased out.
South Carolina		✓	
South Dakota		✓	Only personal property of centrally assessed utilities is taxable.
Tennessee	✓		Only personal property used in a trade or business is taxable.
Texas		✓	
Utah		✓	
Vermont	✓		Local option to exempt.
Virginia	✓		Local governments may enact an exemption.
Washington		✓	

State/Jurisdiction	Inventories Taxable?		Comments
	Yes	No	
West Virginia	✓		
Wisconsin		✓	
Wyoming		✓	
District of Columbia		✓	

Source: Commerce Clearing House, *State Tax Guide*, 2002.

States also exempt other types of business personal property. For example, Maryland exempts business personal property of small home-based businesses (provided original start-up costs were less than \$10,000).

Targeted Business Relief

Targeted property tax relief differs from broad-based relief in several ways. First, property tax relief may not be the primary goal; instead, it may be an outcome of state economic development policies that are designed to attract new business investment. Frequently economic development programs offer some sort of property tax relief as part of a larger incentive package. In addition, this type of relief commonly is offered at the local rather than at the state level, making it difficult to track. Benefits generally come in the form of exemptions or abatements.

Exemptions and abatements. Exemptions exclude certain types of property from taxation. Policymakers can single out certain businesses for relief by exempting specific types of property, such as manufacturing machinery. Connecticut, for instance, fully exempts newly acquired manufacturing machinery and equipment from local property taxes, and the state reimburses the towns for the revenue loss. However, the goal is to stimulate investment, not necessarily to provide tax relief. Likewise, in Indiana, the owner of new manufacturing equipment is entitled to a deduction from the assessed value of that equipment for a period of five or 10 years. The 10-year deduction equals the product of the assessed value of the equipment in the year that the equipment is installed, multiplied by 100 percent for the first year, 95 percent for the second year, 90 percent for the third year, 85 percent for the fourth year, 80 percent for the fifth year, 70 percent for the sixth year, 55 percent for the seventh year, 40 percent for the eighth year, 30 percent for the ninth year, and 25 percent for the tenth year.

A number of states also provide property tax abatements. Abatements differ from exemptions in that the property in question is subject to taxation, but it is taxed at a reduced rate. Such programs usually are authorized by state legislation and implemented by local governments. Abatements sometimes are used in environmental policy to provide a reward when landowners agree to use their land in a certain way. For example, Connecticut allows towns to abate taxes on remediated properties (contaminated properties that have been cleaned up). More frequently, however, abatements are used as a tool to attract businesses or industry to a new community or to a particular area. For instance, a community that wants to promote new development in a run-down or "blighted" area may offer private developers property tax

abatements as an incentive to build in the desired location. Abatements often are part of the package of development inducements offered in enterprise zones.

Enterprise zones. Two-thirds of the states have adopted enterprise zone programs. As originally envisioned, an enterprise zone is a specific and fairly small area of a city that is targeted for redevelopment on the basis of high unemployment, poverty, age of housing stock or other evidence of economic weakness. Designation as an enterprise zone provides various combinations of regulatory relief and tax abatements, credits, deductions and exemptions for firms that move into the zone to create jobs. The attractiveness of such incentive packages has led some states to expand eligibility for them widely, well beyond decaying inner cities.³

Three states—Michigan, New York and Pennsylvania—have taken this idea a step further and designated tax free zones within the state. Michigan's Renaissance Zones, New York's Empire Zones and Pennsylvania's Keystone Zones are state-run programs designed to entice new investment to the selected zone areas by granting tax-free status. Businesses that locate in these zones then are exempt from all state and local taxes for up to 15 years.

Tax increment financing

Tax increment financing (TIF) is another way that property tax breaks are used as economic development incentives. However, it is questionable whether TIF can be viewed as property tax relief policy. Under state statutory guidelines, a city, acting on its own or in concert with a group of local taxing authorities, designates a TIF zone. Property values are assessed and recorded at current values. The taxing authorities then identify a pool of money from existing public funds or issue municipal bonds to generate cash that, in turn, is used to make physical improvements within the TIF zone. Once such improvements are made, presumably business activity will increase within the TIF district and property values will rise. The resulting increase in tax revenue over pre-TIF levels is captured and used to pay back the bonds or TIF fund. TIF use by local governments has grown steadily during the last three decades. Forty-eight states and the District of Columbia authorize the use of TIF; only North Carolina and West Virginia do not.

Despite its extensive use and popularity among local governments, TIF has been criticized for several shortcomings. One major drawback is that earmarking incremental revenue growth for TIF projects also creates consequences for local government spending. Local government property tax revenue is used primarily to fund public education. When TIF projects freeze tax revenue growth (by capturing revenue increments), school funding is either limited or must be replenished from other sources.

Another criticism has been the expanding use of TIF. What was once used as a tool to promote development in blighted areas now is being used extensively in areas that many do not consider to be blighted. To address this concern, the Illinois legislature undertook a comprehensive TIF review in 1999 and made several changes to its law including clarifying the definition of blight and requiring that blighted properties occur throughout a TIF zone.

Source: Jeff Dale, "Tax Increment Financing: Friend or Foe?" *Legisbrief* (National Conference of State Legislatures) 10, no. 15 (March 2002).

PROPERTY TAX LIMITS

Property tax policy also is shaped by other factors. Throughout the country, state laws and constitutional provisions limit property taxes in many ways, including limitations on property assessment increases, on property tax rates and on overall local revenue growth. Many limitations were adopted in states that allow citizens to make laws and amend state constitutions through the initiative petition process. California's Proposition 13, Massachusetts' Proposition 2 1/2 and Oregon's Cut and Cap are the most famous examples of property tax limitation measures approved directly by voters. However, most states have some type of property tax constraints. Limits generally take one of the following forms:

- Rate limits,
- Assessment limits,
- Revenue rollbacks,
- Expenditure limits, or
- Property tax freezes.

Tax Rate Limits

Rate limits are the most common form of property tax limitation; at least 38 states have some type of rate limit. This number is deceptively high, however. Not all these rate limits are restrictive enough to significantly control property taxes.

Tax rate limits may take several forms. One type limits the overall property tax payment to a certain percentage of the property's market value. California and Washington, for example, limit property taxes to 1 percent of market value. Oregon limits overall property taxes to 1.5 percent of market value. Another type of rate limit restricts mill levies. These limitations may be restrictive, depending upon how high the mill levy limit is set and whether certain exceptions are allowed. Most states allow voters to override tax rate limits. Another type of limit is a mill levy freeze. In 1992, Colorado limited all types of mill levies for local governments to the rate in effect at the time of passage. Local governments in Colorado may increase mill levies only with voter approval.

Tax rate limits do not necessarily protect all homeowners from rising property taxes. A homeowner in an area with rapidly rising property values still may experience rising property tax bills under either type of tax rate limit, unless both assessment increases and tax rates are

limited. This is the case in California. States that have the most restrictive tax rate limits include California, Colorado, Montana, Oregon and Washington.

Assessment Limits

Assessment limits restrict how much property values may increase in a year for tax purposes. However, these limits do not directly control how much property tax bills may increase unless tax rates also are limited. They can, however, prevent large increases in tax bills in areas where property values are escalating rapidly. Nineteen states and some counties in New York have assessment limits. Voters in Washington approved Measure 747 in November 2001, which limits property tax increases to 1 percent per year. Assessment limits are really restrictive only when they apply to individual properties and are set at low rates.

Assessment limits are designed to address a specific problem with the property tax: the rapid escalation of property values in specific regions of a state that suddenly become desirable. An influx of wealthy newcomers in many communities in the 1990s caused home values to skyrocket, driving up assessments—and thus property taxes—for longtime residents whose incomes had not kept pace with property taxes. A similar situation in California in the 1970s was a key factor in passage of Proposition 13, which limits increases in taxable valuations to 2 percent per year until the property is sold.

Assessment limits have drawbacks. Over time, strict assessment limits can create disparities between long-time homeowners and new residents because assessments are updated to market value when property is sold. Property values have increased dramatically in California since 1978, but property taxes have been held down as a result of Proposition 13. The limitation has created incentives for older, long-time residents to remain in their homes longer than they might have otherwise have done because property is reassessed at current market value whenever it changes hands, which likely means a much higher property tax bill. Assessment limits tend to benefit older homeowners at the expense of younger families and other new homebuyers.

Revenue Rollbacks

Revenue rollbacks address the problem of rapidly growing property values by requiring local jurisdictions to “roll back” mill levies when assessments grow by more than a certain percentage. Revenue rollback limits go into effect only when property is revalued. It requires that the tax rate be reduced, usually to prevent any increase in revenue. In Missouri, for example, local governments must roll back mill levies to prevent revenues from growing by more than 5 percent as a result of reassessment. Revenue rollback provisions avoid the inequities between property values set for long-time homeowners and newcomers that result from assessment limits, yet they do not prevent some large increases in individual property owners’ taxes because rollbacks are calculated jurisdiction-wide. Taxpayers whose home value has increased by more than the countywide average would pay higher taxes even with a rollback.

Expenditure Limits

A handful of states attempt to limit property taxes by limiting the growth of local government spending. This limit has been directed toward school districts at least 8 states. New Jersey also limits the spending of its municipalities, while Arizona, California and Colorado use this method for all localities. Most of these limits are tied to a growth factor, most commonly population growth and inflation.

Property Tax Freeze

Twelve states use tax freezes, which typically bar increases in property taxes when certain conditions are met (usually when the homeowner reaches age 65). Arizona, Arkansas, Connecticut, Illinois, Louisiana, New Jersey, Oklahoma, Tennessee, Texas and Washington have property tax freeze provisions for elderly taxpayers. New legislation in Rhode Island authorizes the city of Providence to freeze property taxes for residents whose annual income is less than \$25,000. South Dakota freezes assessments of single-family dwellings if income is below \$15,041 (single-member household) or \$18,801 (multiple-member household).

Tax freeze programs have never become popular. More states have chosen circuitbreaker programs and homestead exemption programs as their main property tax relief vehicles. These programs, as well as broad property tax limitations, have made tax freezes unnecessary. Table 8 shows state limits on property taxes.

State/ Jurisdiction	No Limits	Property Tax Rate Limits	Assessment Limits	Revenue Rollbacks	Expenditure Limits	Property Tax Freeze
Alabama		✓	✓			
Alaska		✓				
Arizona		✓	✓		✓	✓
Arkansas		✓	✓	✓		✓
California		✓	✓		✓	
Colorado		✓			✓	
Connecticut						✓
Delaware				✓		
District of Columbia						
Florida		✓	✓	✓		
Georgia			1			
Hawaii	✓					
Idaho		✓				
Illinois		✓	✓			✓
Indiana		✓				
Iowa		✓	✓		✓	
Kansas		5		✓	✓	
Kentucky		✓		✓		
Louisiana		✓		✓		✓
Maine	✓					

Table 8. Restrictions on Local Property Taxes

State/ Jurisdiction	No Limits	Property Tax Rate Limits	Assessment Limits	Revenue Rollbacks	Expenditure Limits	Property Tax Freeze
Maryland			✓			
Massachusetts		✓				
Michigan		✓	✓	✓		
Minnesota		✓				
Mississippi		✓				
Missouri		✓		✓		
Montana		✓		✓		
Nebraska		✓			✓	
Nevada		✓	✓			
New Hampshire	✓					
New Jersey			✓		m	✓
New Mexico		✓	✓			
New York		✓	✓ a			
North Carolina		✓				
North Dakota		✓				
Ohio		✓		✓ (1)		
Oklahoma		✓	✓			✓
Oregon		✓	✓			
Pennsylvania		✓				
Rhode Island		✓				l
South Carolina			✓	✓		
South Dakota		✓		✓		✓
Tennessee						l
Texas		✓	✓	✓		s
Utah		✓				
Vermont	✓					
Virginia				✓		
Washington		✓	✓	✓		✓
West Virginia		✓				
Wisconsin		a (2)			l	
Wyoming		✓				
Total	4	38	19	15	8	12

Key:

a = selected counties

l = local option

m = municipalities

s = school districts

Notes:

1. Ohio—The property tax reduction factor is slightly different than the general approach to revenue rollbacks. Ohio law essentially freezes the amount of taxes that may be charged against an existing stock of real property. This is accomplished with a tax credit on property tax bills generally equal to the difference between what the tax would have generated at the current property values versus the amount raised when the tax was first levied. Tax reduction factors are calculated jurisdiction-wide and their application reduces effective tax rates on real property. Thus, while the tax rates are not changed, they do operate like revenue rollbacks.
2. Wisconsin—Property tax rate limits are imposed only on counties and technical college districts. Expenditure limits are imposed on municipalities; however, they are optional. By complying with the limit, municipalities with local purpose tax rates in excess of 5 mills may qualify for additional state aid. Also, school districts are subject to revenue limits that control increases in the combined amount of property taxes and state aid, calculated on a per pupil basis, that districts may raise each year.

Source: NCSL; Commerce Clearing House, *State Tax Guide*, 2002; Advisory Commission on Intergovernmental Relations, *Tax and Expenditure Limits on Local Governments*, 1995; Nikolai Mikhailov, Harvard Law School, 1998; and calls to state legislative fiscal offices.

CONCLUSION

Property taxes are not simply a local issue. State legislatures play a significant role in property tax policies. Policymakers affect the property tax burden by specifying the types of property subject to the tax, determining who is eligible for relief, and enacting measures that limit tax districts' ability to raise property taxes.

To ease property tax burdens, state lawmakers across the country have devised various programs to provide relief. However, the relief provided to some may come at the expense of others. Frequently, a larger portion of the overall property tax burden falls on business property as a result of policies adopted to provide relief to homeowners and farmers. In turn, property taxes paid by businesses often are shifted to the consumer or others. Therefore, although property tax relief policies ease the tax burden for a number of disadvantaged taxpayers, they do not operate in a vacuum nor come without costs.

In addition, all property tax relief measures serve to shrink the tax base in some way, which affects local government revenues. As a result, local jurisdictions may be forced to cut services or find new revenues by raising taxes or seeking more state support. State support also comes at a price. It shifts the burden to state taxpayers and may have fiscal and political implications. Property taxation should be considered as part of a larger state and local tax system.

NOTES

1. Steven D. Gold, *Property Tax Relief*, (Lexington, Mass.: DC Heath and Company, 1979), 3.
2. *Ibid.*, 57-62.
3. Ron Snell, *A Review of State Economic Development Policy*, (Denver, Colorado: National Conference of State Legislatures), 26.