

In Brief: State and Local Property Tax Burdens in 2005

Introduction

States and localities face the challenge of collecting property and other tax revenues to finance public services and programs, while not creating unduly high tax burdens that would drive away affluent residents or create excessive burdens for low-income households. Of all local government revenue sources, the one relied on most heavily is the local property tax.

As state legislators grapple with high and rising property tax burdens, they might find it useful to compare their state's residential property tax burdens with those of other states. In addition, they may want to know which demographic groups have the highest property tax burdens. This study seeks to provide policymakers with this information to assist them with their deliberations.

Methodology

This study uses data from the 2005 American Community Survey (ACS), a large national survey from the U.S. Department of Commerce's Census Bureau. We first estimated the overall median state and local residential property tax burden for three groups: all homeowners, homeowners under age 65 (where both spouses or both unmarried partners were younger than age 65), and homeowners age 65 and older (where either spouse or unmarried partner was age 65-plus). To estimate property tax burdens from ACS data, property taxes and income for each household were used. To derive income for each household, income from family members and any unmarried partners was counted.

After obtaining income and property tax data, we calculated property tax burdens for each group. The property tax burden was defined as the ratio of property taxes divided by the combination of family income plus the income from any unmarried partner for each homeowner household. The median property tax burden for each group (all homeowners, homeowners under age 65, and homeowners age 65 and older) was used as the best estimate for the overall state property tax burden.

After calculating the overall state property tax burden for the three groups, we estimated the median property tax burden by income quartile for the three groups in order to better assess the regressivity or progressivity of the property tax. Income quartiles were calculated for each group and then homeowners were allocated by quartile range.

Principal Findings

State and Local Property Tax Burdens

On the whole, New England and the Middle-Atlantic states have the highest median property tax burdens. The median property tax burdens of homeowners age 65 and older were greater than the property tax burdens of younger homeowners in almost all of the 50 states. Most of the states with the lowest median property tax burdens are from the South.

Some households, especially lower-income ones, may be eligible for property tax relief programs that do not directly reduce a homeowner's property tax bill. Therefore, some homeowner respondents may have a lower effective property tax burden than what was calculated from ACS data.

Property Tax Burdens by Household Income Quartiles

Property taxes for all homeowners and homeowners under age 65 are regressive for almost all of the states, i.e., property tax burdens decrease as incomes increase. The only exception is Louisiana for all homeowners and homeowners under age 65. Louisiana offers a homestead exemption that reduces the property's market value from taxation, resulting in many higher-income households having a higher property tax burden than lower-income households.

Property taxes for homeowners age 65-plus are also regressive for almost all of the states. However, Alabama, Louisiana, and Mississippi are not regressive because many low-income households pay very little or no property taxes due to of homestead exemption(s). This results in many higher-income households having a higher property tax burden than lower-income households.

Conclusions

On the whole, the average residential property tax burdens of homeowners age 65-plus exceed the property tax burdens of younger homeowners for each of the states. Property taxes are generally found to be regressive (property tax burdens decrease as incomes increase) for all homeowners, for homeowners under age 65, and for homeowners age 65-plus. Homeowners in the lowest income quartile generally face the highest property tax burden.

The states with the highest residential property tax burdens are mostly in the New England and Middle-Atlantic regions. They include New Jersey, New Hampshire and Vermont. Most of the states with the lowest residential property tax burdens are in the South, and include Louisiana, Alabama, West Virginia, Mississippi, and Arkansas.

Some households, especially lower-income households, may have a lower property tax burden than that estimated from ACS data, since they are eligible for property tax relief programs that do not directly lower a homeowner's property tax bill.

The study's findings reaffirm that property tax relief needs to be targeted more to lower-income households through circuit-breaker and other property tax relief programs, since these households have higher property tax burdens than other households.

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