In Brief: State Programs and Practices for Reducing Residential Property Taxes

States and localities face the challenge of collecting property and other tax revenues for financing public services and programs, while not creating unduly high tax burdens, especially for lower-income households. Of all local government revenue sources, the one relied on most heavily is the local property tax.

States and localities have a variety of programs and methods that reduce property taxes to homeowners and (in many states) renters. Chief among property tax relief programs are homestead credits, circuit breakers, homestead exemptions, and property tax deferral programs. Fourteen states and the District of Columbia offer homestead credits; 35 states and the District of Columbia offer circuit breaker programs; 40 states and the District of Columbia provide homestead exemptions, and 24 states and the District of Columbia provide property tax deferral programs.

Second, 42 states and the District of Columbia have established caps, limits, or freezes on assessed property values, property tax rates, or total property taxes. Third, many state assessment laws result in residential property owners paying lower property tax bills than commercial or industrial property owners because of differences in how property is valued or in property tax rates in the year 2000. Altogether, 18 states use lower legal assessment levels for residential property than for commercial or industrial property for calculating property taxes. Seven states and the District of Columbia apply lower property tax rates to residential homeowners, compared to commercial and industrial property owners.

When comparing and examining state and local programs and practices for reducing property taxes, it becomes clear that property taxes can, in some cases, be very complex. Property taxes can change for a number of reasons, including the frequency of property assessment, the imposition of caps or limits on annual increases of assessed property values, the imposition of caps on property tax rates, and statutory or constitutional assessment levels.

Homeowners wanting to compare property tax burdens of homes in different communities should not only consider current actual property tax liabilities, but also think about how property taxes could change over time. Moreover, homeowners need to discover and compare the various types of available property tax relief programs that they may be eligible for to get a more accurate picture of their property tax liability.

This paper serves as a guide to understanding how state laws, practices, and programs reduce property taxes for residential homeowners (owner-occupied households) and renters.   This paper shows that states have a myriad of programs and practices for reducing property taxes. It was written for state policymakers, retirees, assessing officials, and others who want to know about the factors that influence how residential property tax liabilities can vary among the states.

Source: David Baer, *State Programs and Practices for Reducing Residential Property Taxes*. For a copy of the 53-page Issue Paper, write for PPI Issue Paper #2003-04, Public Policy Institute, AARP, 601 E Street, NW, Washington, DC 20049. Or see www.aarp.org/ppi.