

The Property Tax Fiasco

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I use the term 'fiasco' because it is almost laughable that mature adults created a system that makes people wish their property was worth less, and allows people with greater wealth to make your property unaffordable. In other words, rising property values can and do tax people out of their property. The property tax rate only affects the degree to which the policies of Texas and most other states promote perverse outcomes like the two just cited.

The key to the perverse outcomes cited above, and others that I will describe below, is periodic reassessment to keep the property on the tax rolls at full market value. It means that if you live in a suddenly popular neighborhood, state law forces your county tax assessor to raise the taxable value of your home, perhaps to the point where you have to move because you can no longer pay your property taxes. Periodic reassessment also taxes and therefore reduces home improvement. In other words, renovation will raise your property taxes, especially if you renovate the exterior where the changes are readily visible to the tax assessor. Periodic reassessment most discourages improvements that would raise property values throughout a neighborhood. Since interior home improvements are less likely to increase the property tax you owe, it is not surprising or uncommon to see homes that are palatial on the inside, but dilapidated on the outside. Periodic reassessment also fosters two-faced, dishonest behavior; talking down the value of your home at a tax protest hearing and then talking it up when trying to sell it.

California and Florida (CA-FL) have renounced periodic reassessment, and contrary to the warnings of periodic reassessment proponents, the taxable value of residential property continued to rise rapidly. Purchase price, plus an annual inflation adjustment, is each home's taxable value. That eliminates the threat of being taxed out of your property, and renovation no longer raises a homeowner's property taxes. Since the reduced cost of home improvement, and the resulting boost in property values throughout the neighborhood, increases property values, there is no guarantee that ending periodic reassessment will necessitate a rate increase to recoup lost revenues. The opposite may be the case. It could be a wash. It's an issue for empirical research to resolve.

A clear political advantage of periodic reassessment is seemingly equal taxation of seemingly equal properties. 'Seemingly' is a key word because many key property characteristics are unknown to the county tax assessor. The CA-FL approach will yield some apparent inequities. In popular neighborhoods, recently sold properties will have higher values for tax purposes than similar homes that

haven't been on the market for awhile. But that's an inequity only to the extent that you believe that similar market value means similar ability to pay taxes; something that is definitely not true. Income and property value are correlated, but not strongly so. And the 'price' of equal taxation of seemingly equal properties is the administrative cost of periodic reassessment, the resulting home improvement disincentive, and possible forced sale because neighborhood popularity has sharply increased property taxes. It's a trade-off that needs to be recognized, debated, and addressed by our leaders.

So, the legislature needs to do more than lower property tax rates. They need eliminate periodic reassessment, and change the basis of a home's taxable value to the purchase price adjusted for inflation. A reduction in the appraisal cap from the current ten percent to anything significantly above likely inflation, while helpful, is a second-best approach to the problem of rising property tax liabilities.