

Property Tax – A Complex Model

In the last month I have read two articles about property tax that highlight just how complex this method of raising money can get. One was in Worth Magazine and was about wealthy cities where property values have begun to decline. The second piece was a column by Roddy Stinson in the Express News about how the freeze on property tax for seniors and disabled homeowners here is threatened by new taxing districts. These articles almost scream at us to take a deep breath and reconsider how we look at raising money in our city.

As I noted property tax is complex. The taxing entities set their tax rates which are expressed as dollars of tax per each \$100 of the assessed value of your property; in most cases your home. This system has, for decades, allowed politicians to proclaim, “I am not raising your taxes!”, meaning the rate, while increasing property values meant you paid more and more in taxes.

The major problem here has been that all taxes must be paid out of income. Selling your home to raise money for taxes is not a workable model. But this fact has often escaped taxing authorities. If property values soar they have been content to leave tax rates the same, the “I am not raising your taxes!” syndrome, and allow property tax receipts to grow at double digit rates. And when incomes don’t grow that fast the taxpayers’ next step is like California’s Prop.13.

So, when property values soar, property tax rates should be dropped. The desired outcome is for taxes paid by homeowners to rise only in line with the income of those homeowners. This situation is complicated, but now we throw in the tax freeze for senior and disabled citizens.

Let me begin by saying I am 65, and I was pleased to learn my property taxes would be “frozen.” But then common sense overtook emotion. I have absolutely no problem with treating citizens who face financial hardship, especially if they are disabled, kindly with a tax system. That is the very basis of graduated income tax rates. But, for me and for the vast majority of property owners over 65, this tax freeze is a needless gesture with potentially harsh consequences.

First, and most importantly, neither I nor the vast majority of property owners over 65 are on a fixed income. Social Security and many pensions are adjusted annually for inflation, plus many of us still work. And a conservative, prudent investment portfolio can provide annual distributions that maintain buying power. So, why do these people need to have their property taxes frozen? If those taxes are levied with intelligence, these people do not need this gift.

Finally, from the taxing authority’s standpoint, the effect of this nonsense can become significant. If inflation runs at only 2% a year, then in ten years the goods and services a city supplies today will cost almost 22% more than they do now. The over-65 property owners could help support this burden without any diminishment of their living standard.

They could do that if the property tax is intelligently managed, but we have evidence that this is a real challenge. Our state has for decades levied a fixed rate gasoline tax to pay for roads, and inflation has overwhelmed it. The result is that we are looking at toll roads. Maybe we can learn a lesson with property tax.