

“Public debate on property taxation in the United States is extremely unbalanced. An avalanche of criticism on every possible ground, often exaggerated and sometimes inaccurate, is not matched by correspondingly vigorous attention to its significant strengths or to constructive recommendations for its improvement...”

Source: Youngman, J.M., 2016. *A good tax: Legal and policy issues for the property tax in the United States*. Lincoln Institute of Land Policy.

Even a good tax can be made better
(but please be careful because it can also be made
worse)

Presented to

Illinois Property Tax Relief Task Force Subcommittee on Assessments and
Exemptions

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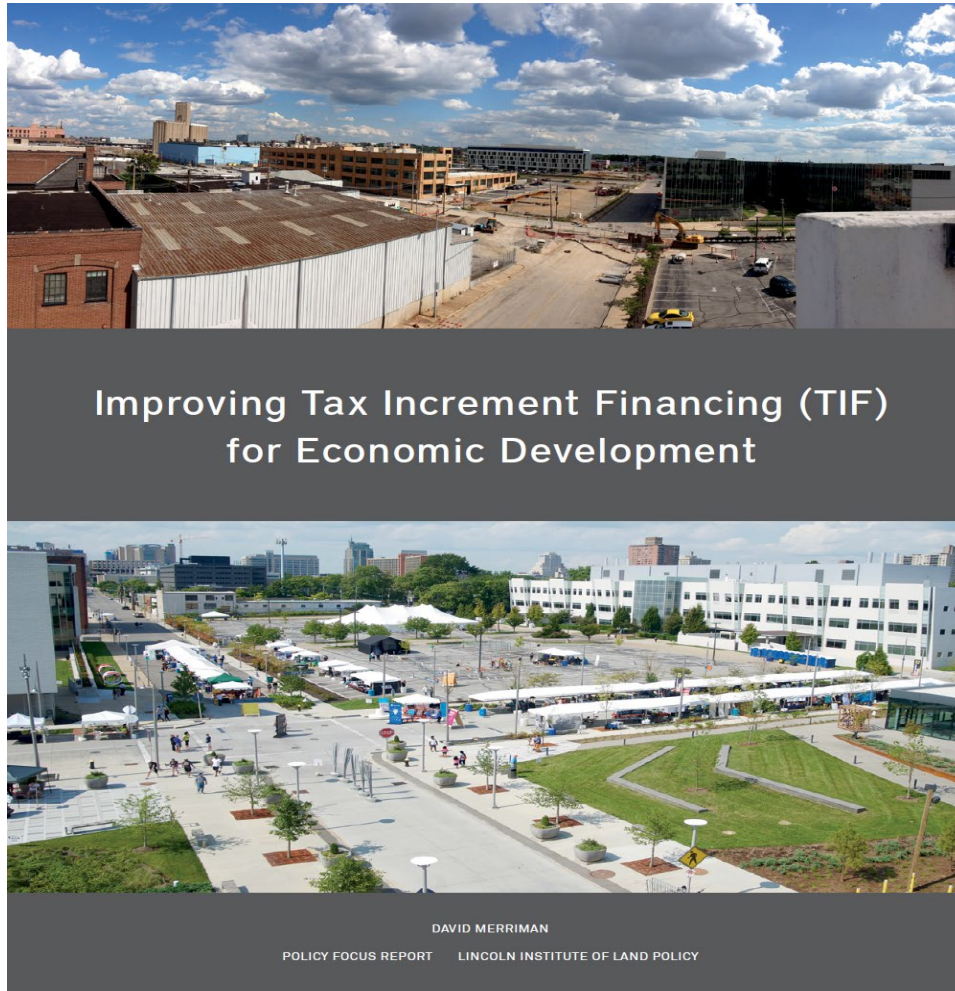
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About Me

- David Merriman, Stukel Presidential Professor, Department of Public Administration, UIC, and Senior Scholar, IGPA.
- Distinguished scholar Lincoln Institute of Land Policy, Cambridge Mass.
- 30+ years experience studying and teaching about state and local public finance.
- Worked extensively with gov't officials on a variety of issues related to S&L public finance.

A Note on Tax Increment Finance



New publication available (for free) at:

<https://www.lincolninst.edu/publications/policy-focus-reports/improving-tax-increment-financing-tif-economic-development>

My prepared remarks do not focus on TIF since I understand that another committee is studying this issue. I'm happy to answer questions about TIF to the extent that is relevant to this committee.

“Standard” on Property Tax Policy

International Association of Assessing Officers approved January 2010

- ***The Role of the Property Tax***
 - Allocates the cost of government according to ability to pay as measured by property wealth
- ***Advantages of the Property Tax***
 - The property tax is more stable and reliable as a revenue source than any other tax.
 - More open and visible than...other taxes...property owners can examine their assessments and those of nearby properties.
 - Because the property tax generally is levied and administered locally, it ...promotes local autonomy.
 - Because land is an asset of fixed supply, economic distortions associated with most forms of taxation do not accompany property taxes on land.
 - Property taxes can be secured by the property and therefore are difficult to evade.
- ***Disadvantages of the Property Tax***
 - Falls on unrealized capital gains and may be poorly related to cash flow.
 - Property owners often misunderstand the relationship between appraised value and tax and, therefore misunderstand how changes in appraised value relate to changes in tax.
 - Property appraisal is resource-intensive compared to the voluntary reporting mechanisms of the income and sales taxes

Standard on Property Tax Policy

International Association of Assessing Officers approved January 2010

- Remedies for Problems with the Property Tax
 - Because there may be imperfections in using property wealth as a measure of ability to pay the following have been used to alleviate the real and perceived public concern with the property tax:
 - exemptions
 - circuit breakers
 - tax abatements
 - classification
 - tax and value limitation measures

Potential Additional Problems with the Property Tax

(not discussed in the IAAO standards—Merriman addendum)

- Inter-community inequities when the property tax is the primary source of funding for one or more government services (e.g. schools, police protection, etc.).
 - Individuals and businesses that reside in low-property wealth communities may pay more to receive the same level of services.
 - Potential remedy: equalization payments by a central government (e.g. state government).
- In some cases the property tax may be regressive
 - Taxpayers with relatively low incomes may pay higher property taxes (as a share of income) than those with more income
 - Potential remedies: circuit breakers or other compensating tax or expenditure policies.
 - Regressivity of property taxes is complex question. Most economists now believe the property tax is close to proportional with respect to income.
 - The new SALT limits on deductibility of property taxes on federal income taxes are likely to make net property tax payments more progressive (since well-off households' net cost of property taxes has increased)

How Should We Think About Property Tax Assessments?

- More accurate assessments
 - are closer to market value on average
 - have less variation
- How accurate should assessments be?
 - We should compare the costs of increased accuracy to the benefits from increased accuracy.
 - Costs
 - Increased resource costs (e.g. more government staff, more compliance costs from taxpayers).
 - Decreased privacy (e.g. an assessor may enter your house to get more accurate information).
 - Potentially, more volatility of payments since assessments will change whenever market values change (hence less certainty for both taxpayers and governments).
 - Benefits
 - More equitable.
 - More predictable and thus more suitable for economic activity especially investment.
 - Less potential for favoritism/corruption.
 - Public may see the tax (and government) as more legitimate.

How should we think about property tax exemptions?

- We should compare the costs and benefits of exemptions/abatements/classification/circuit breakers.
- Property tax exemptions* redistribute tax burdens
- Final incidence of property tax exemptions may differ from impact incidence (e.g. an expanded homeowner exemption may be *capitalized* in the price of a new home so home buyers get no benefit)

*exemptions= exemptions/abatements/classification/circuit breakers

How Should We Think about Property Tax Exemptions?

- Benefits of exemptions
 - Allow flexibility to relieve pressure on groups that are overly burdened (e.g. elderly)
 - Give local governments the flexibility to pursue non-revenue raising goals (e.g. attracting high wage businesses)
- Costs of exemptions
 - Cause property tax rates to rise and thus may reduce economic efficiency
 - May make the property tax system less transparent
 - May make the property tax system less equitable
 - Susceptible to misuse for political ends

*exemptions= exemptions/abatements/classification/circuit breakers

A few comments on SB1379 PROP TX-INCOME PRODUCING PROP

- Improving assessments for income producing properties is a very important issue
 - Infrequent sales of such properties and unique characteristics make them hard to value.
 - Illinois income producing properties account for about one-third of assessed value and more than one-third of property tax payments.
 - The property tax is the most important S&L business tax.
 - Accuracy and predictability of property tax payments may be important in site location and investment decisions.

A few comments on SB1379 PROP TX-INCOME PRODUCING PROP

- Thoughts on costs and benefits of SB1379
 - Potential costs
 - Compliance costs
 - Probably not a large issue for large buildings
 - Business and tax records already require much of the information
 - Appeals often use this information
 - Many other states and cities require this sort of information
 - Potential for misuse—e.g. assessor abuse to unfairly target certain firms, leaking to economic rivals, computer hacking etc.
 - Data security and abuse is a significant issue especially in relation to tax data.
 - Established system are designed to minimize risk and tax authorities (e.g. income tax) have much experience.
 - Starting small and being cautious seems prudent.

A few comments on SB1379 PROP TX-INCOME PRODUCING PROP

- Thoughts on costs and benefits of SB1379
 - Potential benefits
 - Improved accuracy of assessments
 - Reduced and streamlined appeals
 - More predictability with regard to revenue collections for taxing districts
 - Improved business climate

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