The State of State (and Local) Tax Policy

How do state and local property taxes work?

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A. Jurisdictions in all 50 states and the District of Columbia impose property taxes. Most property tax revenue comes from local levies (county, municipal, township, school district, and special district) on land and improvements to it, but some states also tax personal property (such as machinery, equipment, and motor vehicles).

HOW MUCH REVENUE DO STATE AND LOCAL GOVERNMENTS RAISE FROM PROPERTY TAXES?

While property taxes are a significant source of local government revenue, they are a very small revenue source for most states (table 1). State governments levied property taxes in 36 states in 2017, collecting $16 billion in revenue, or 1 percent of their own-source general revenue. (Own-source revenue excludes intergovernmental transfers.) Meanwhile, local governments collected $509 billion from property taxes in 2017, or nearly half of their own-source general revenue.

TABLE 1
State and Local Property Tax Revenue
2017

	Revenue (billions)	Percentage of own source general revenue
State and local	$526	22%
State	$16	1%
Local	$509	47%

Source: Urban-Brookings Tax Policy Center, State & Local Government Finance Data Query System

Note: Own source general revenue does not include intergovernmental transfers.

Property taxes are the largest own-source of revenue for counties, cities, townships, school districts, and special districts, which are specific-purpose units, such as water and sewer authorities. School districts rely quite heavily on property taxes, collecting $212 billion in 2017, which was 83 percent of their own-source

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general revenue. Because school districts receive substantial intergovernmental transfers, own-source revenue makes up less than half (about 45 percent) of their total general revenue.

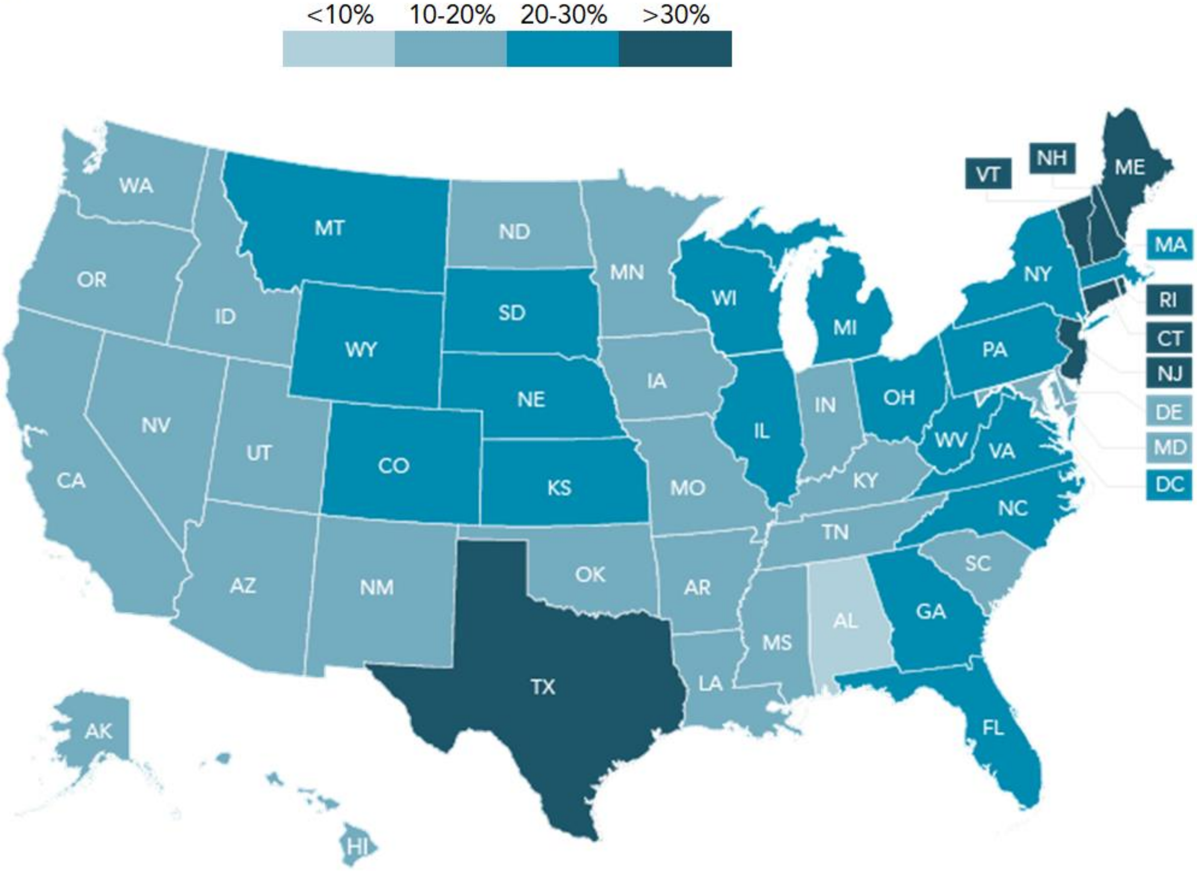
IN WHICH STATES ARE PROPERTY TAXES MOST IMPORTANT?

New Hampshire, which has neither a broad-based income tax nor a general sales tax, was the most reliant on property taxes in 2017, with property tax revenue accounting for 49 percent of its combined state and local own-source general revenue. Property taxes also contributed more than 30 percent of state and local revenue in Connecticut, Maine, New Jersey, Rhode Island, Texas, and Vermont. Alabama was the least reliant on property tax revenue in 2017, with only 10 percent of its combined state and local own-source general revenue coming from the tax. Arkansas, Delaware, Hawaii, Kentucky, Louisiana, New Mexico, Oklahoma, and West Virginia also collected less than 15 percent of combined state and local revenue from property taxes (figure 1).

FIGURE 1

Property Tax Revenue as a Percentage of State and Local Own-Source General Revenue

2017



Source: Urban-Brookings Tax Policy Center, State & Local Government Finance Data.

Note: Own general revenue does nt include intergovernmental transfers.

How do state and local property taxes work?

Looking only at local governments, property taxes provided more three-quarters of own-source general revenue in Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, and Rhode Island in 2017. Alabama's local governments received 20 percent of their own-source revenue from property taxes, the lowest percentage in any state.

At the state level, Vermont's property taxes contributed 26 percent of state own-source general revenue in 2017, far and away the highest percentage in any state. Nearly all of Vermont's education spending is financed at the state level, and the state property tax is the largest source of that funding. The next-highest percentages were in Arkansas, New Hampshire, and Wyoming, where property taxes were approximately 9 percent of own-source general revenue in each state. Wyoming's property tax revenue is relatively high in part because the state levies its tax on mineral production.

Property taxes were also 5 percent or more of state own-source revenue in Arizona, Kansas, Michigan, Montana, and Washington. State property taxes are often on personal property and taxes on land that is used for utilities. Fourteen states did not levy a state-level property tax.

HOW MUCH DO PROPERTY TAX RATES DIFFER ACROSS THE COUNTRY?

Effective property tax rates differ widely across and within states, making them difficult to compare. In addition to variation in statutory tax rates, local governments use various methods to calculate their real property tax base.

The taxing jurisdiction typically assesses the real property value by estimating what the property would sell for in an arms-length transaction. However, some jurisdictions base value on the last sale price or acquisition value of the property, others consider the income that a property could generate (for example, an empty lot that could be used for a hotel), and some base the assessment solely on the size or physical attributes (e.g., design, location) of the property. There is also variation in the timing of assessments, with some jurisdictions assessing annually and others less frequently.

Some jurisdictions tax the entire assessed value of the property (before deductions and credits). Others tax only a fraction of the assessed value. For example, counties in South Carolina tax only 4 percent of a property's assessed value. Jurisdictions may impose different statutory tax rates ("classifications") for different types of property, most commonly distinguishing between residential and business property.

HOW DO STATES LIMIT PROPERTY TAXES?

Many states have imposed limits on property tax rates, property tax revenue, or increases in assessed property values, reducing reliance on the property tax as a source of revenue. California, for example, limits the tax rate to 1 percent and annual assessment increases to 2 percent until a property is resold. As a result, neighbors with similar houses may have dramatically different tax liabilities depending on when their houses last changed hands.

States and local governments also often use limits, exemptions, deductions, and credits to lower tax liability. Here are some examples:

- Assessment limits prevent a property's assessed value from increasing by more than a fixed percentage between assessments. These limits can reduce a property's assessed value below its market value and prevent rapid property value increases from raising the owner's tax burden. When the property is sold, its assessed value is reset at market value.

- Homestead deductions and exemptions decrease the taxable value of real property by a fixed amount (much the same way a standard deduction decreases taxable income) for owners who occupy the property. Forty-six states and the District of Columbia have homestead exemptions that reduce the fraction of the assessed property value subject to tax.
- Circuit breaker programs provide relief for elderly and low-income residents with property tax liabilities above a specified percentage of their income. Although relief is based on property tax payments, it is typically provided via an income tax credit. In most states, the state government collects income tax while local jurisdictions collect property tax, making circuit breakers a type of subsidy from state to local governments. Unlike the other approaches described here, circuit breakers benefit renters as well as homeowners in some jurisdictions. According to the Lincoln Institute of Land Policy, 33 states and the District of Columbia offer some form of circuit breaker program in 2018. In 22 of these states and the District of Columbia, renters are eligible for a circuit breaker program (some states offer multiple programs for different types of residents).
- Property tax deferrals allow elderly and disabled homeowners to defer payment until the sale of the property or the death of the taxpayer.

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Data Sources

US Census Bureau. *Annual Survey of State and Local Government Finances.*

Urban-Brookings Tax Policy Center. State and Local Finance Data: Exploring the Census of Governments. Washington, DC: Urban-Brookings Tax Policy Center.

Further Reading

Harris, Benjamin H., and Brian David Moore. 2013. "Residential Property Taxes in the United States." Washington, DC: Urban-Brookings Tax Policy Center.

Lincoln Institute of Land Policy. "Significant Features of the Property Tax."