

### State Programs and Practices for Reducing Residential Property Taxes

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### Property Tax Presentation

- Importance of Property Taxes
- Property Tax Relief Programs
- Property Tax Caps, Limits, and Freezes
- Local Government Expenditure Limits
- Property Tax Treatment of Residential and Other Property Classes
- Property Tax Changes After 2000

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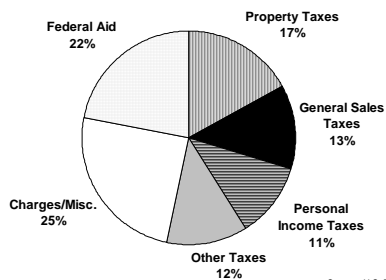
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### U.S. State and Local Government General Revenue Sources, FY 2003



Note: Charges include monies from education, hospitals, sewerage, and airports.

Source: U.S. Bureau of the Census.

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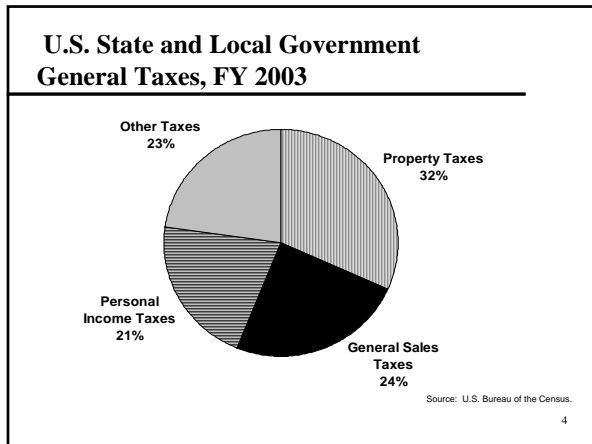
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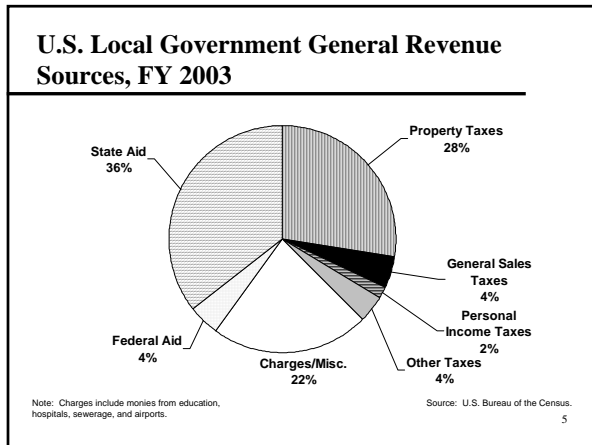
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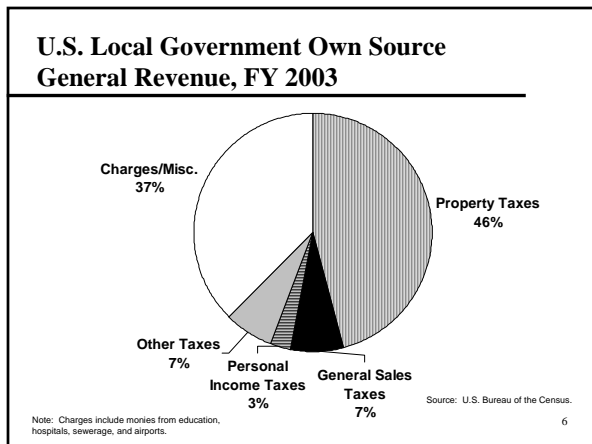
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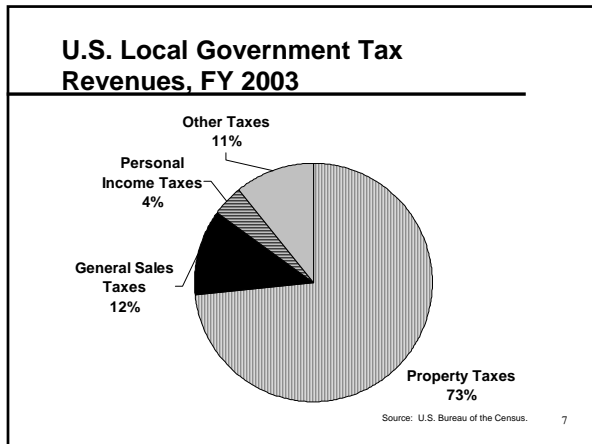
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- ### Property Tax Relief Programs
- Circuit Breakers
  - Homestead Exemptions
  - Homestead Credits
  - Renter Income Tax Breaks
  - Property Tax Deferrals
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- ### Circuit Breaker Programs
- Circuit breaker programs provide tax credits or homestead exemptions that decrease as income increases.
  - Thirty-five states and DC have circuit breaker programs.
  - Twenty-six states have circuit breaker programs for renters.
  - About two-thirds of states restrict circuit breaker programs to older or disabled households.
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### Michigan's Circuit Breaker Program for Households Age 65 and Older

Household Income	Tax Credit
\$0 to \$3,000	All property taxes owed up to \$1,200
\$3,001 to \$4,000	Property taxes in excess of 1.0 percent of income up to \$1,200
\$4,001 to \$5,000	Property taxes in excess of 2.0 percent of income up to \$1,200
\$5,001 to \$6,000	Property taxes in excess of 3.0 percent of income up to \$1,200
\$6,001 and over	Property taxes in excess of 3.5 percent of income minus 10 percent of credit for every \$1,000 of income exceeding \$73,650

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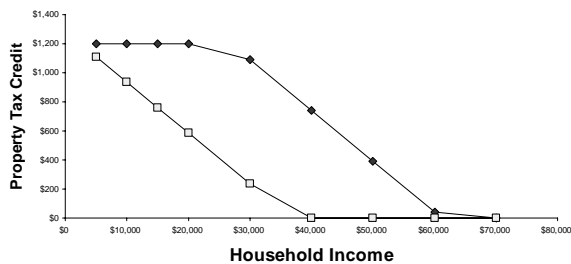
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### Michigan Circuit Breaker Program\*



\*Property tax liability equals \$2,143.

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### Homestead Exemptions

- Homestead exemptions are reductions in the amount of assessed property values for owner-occupied homes.
- Forty states and DC have homestead exemptions.
- Nebraska, New York, North Dakota, Ohio, and Washington offer homestead exemptions that act as circuit breaker programs.

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## Homestead Exemptions

- Most states provide homestead exemptions to homeowners of all ages.
- The value of homestead exemptions depends on the assessment level.

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## Homestead Exemption at Different Assessment Levels

Fair Market Value of Homes	Assessment Levels	Assessed Value	Homestead Exemption	Taxable Value
\$100,000	20%	\$20,000	\$10,000	\$10,000
\$100,000	40%	\$40,000	\$10,000	\$30,000
\$100,000	80%	\$80,000	\$10,000	\$70,000

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Homestead Exemptions in 2005



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### Property Tax Deferrals

- Property tax deferral programs allow homeowners to postpone payment of their property taxes until their house is sold.
- Twenty-five states and DC provide property tax deferral programs.
- Participation rates are very low.
- Almost all programs are for older or disabled homeowners.

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Property Tax Deferrals in 2005



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### Awareness Rates of Property Tax Relief Programs in the US\*

- **66 percent** of eligible respondents are aware of homestead exemptions.
- **31 percent** of eligible respondents are aware of property tax credits.
- **20 percent** of eligible respondents are aware of property tax deferrals.

\*Respondents were AARP members age 65 and older.

Source: Baer, David, *Awareness and Popularity of Property Tax Relief Programs* (Washington, DC: AARP, February 1998).

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**Application Rates of Property Tax Relief Programs in the US\***

- **17 percent** of eligible respondents applied for homestead exemptions.
- **3 percent** of eligible respondents applied for property tax credits.
- **Less than 1 percent** of eligible respondents applied for property tax deferrals.

\*Respondents were AARP members age 65 and older.  
 Source: Baer, David, *Awareness and Popularity of Property Tax Relief Programs*  
 (Washington, DC: AARP, February 1998).

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**Reasons for Not Applying for Property Tax Relief Programs**

Reasons for Not Applying	Percentage of Total Reasons Given*
Did Not Need Assistance	41%
Was Not Aware of Programs	25
Did Not Think I Qualified	14
Other Reasons	13
Did Not Know the Reason	7

\*AARP respondents age 65 and older could provide as many reasons as they wanted.  
 Source: Baer, David, *Awareness and Popularity of Property Tax Relief Programs*  
 (Washington, DC: AARP, February 1998).

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**Property Tax Caps, Limits, or Freezes**

- Forty-four states have property caps, limits, or freezes on property tax rates, values, or taxes.
- Property tax limits can apply to individual homeowners, to taxing districts, or to the whole state.
- Eleven states and DC limit increases in property values for non-senior homeowners.

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### Property Tax Caps, Limits, or Freezes

- Eleven states provide freezes on property values or property taxes for older or disabled homeowners.
- Property tax caps can create tax inequities among homeowners.

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Limits on Assessed Property Values, Property Tax Rates, or Property Tax Revenues in 2005



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Assessed Property Value Limits in 2005



\* = Broad limits on assessed value increases.

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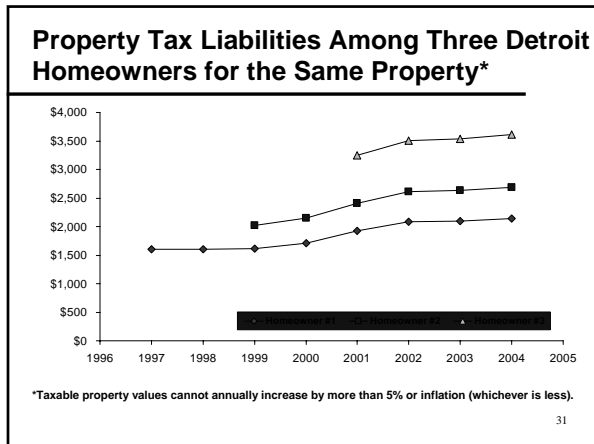
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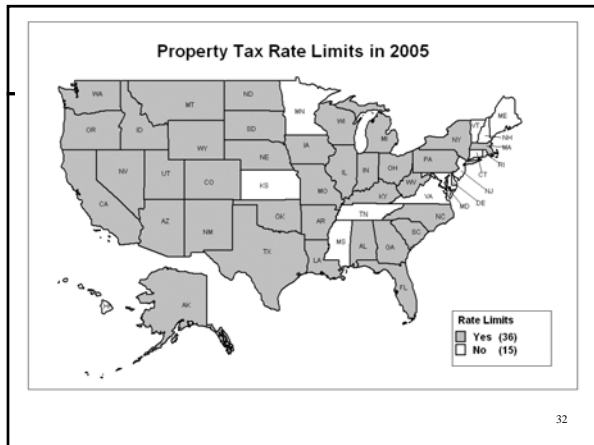
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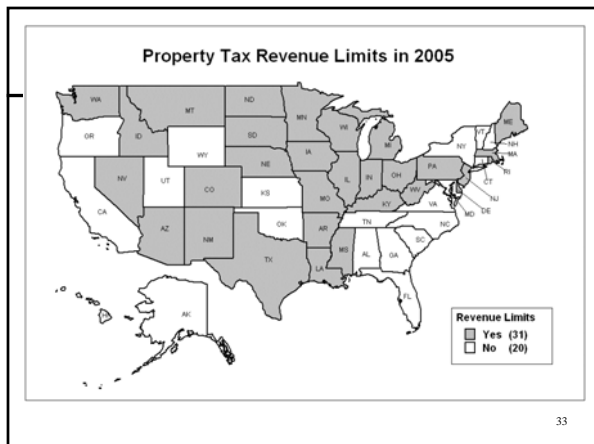
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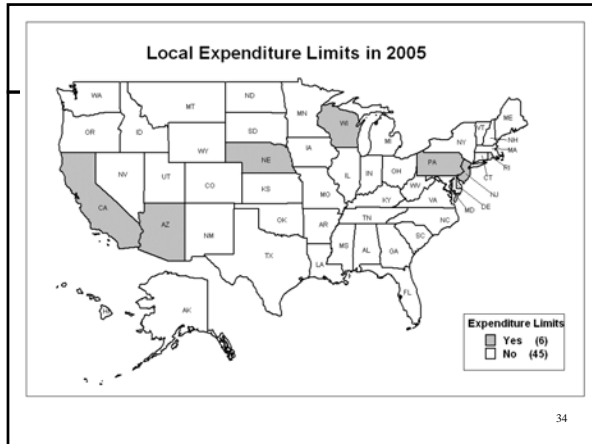
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**Property Assessment and Rate Differences Among Property Classes**

- The most populous cities in 17 out of 19 states used lower assessment levels for residential property than for commercial and industrial properties in 2000.\*
- The most populous cities in 7 out of 8 states and DC used lower property tax rates for residential property than for commercial and industrial properties in 2000.\*

\*Oregon and Wyoming cities used higher assessment levels for residential property, and New York City used a higher property tax rate for residential property.

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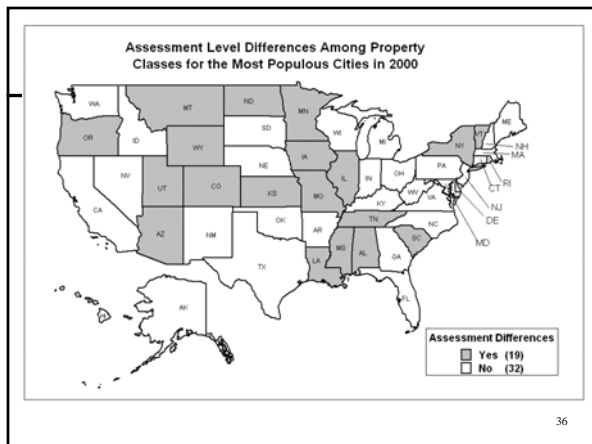
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### Summary Thoughts

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- Property taxes can be reduced through spending reductions or tax shifting.
- Public outreach, educational efforts, and tax assistance are critical for the success of property tax relief programs.
- Property tax deferral programs can help prevent seniors or low-income households from foreclosure proceedings.

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### Summary Thoughts

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- Caps on the growth of assessed property values can lead to inequities in property tax liabilities for similar property.
- Most states reduce property taxes through limits on property values, property tax rates, or property tax revenues.
- More states provide homestead exemptions than other property tax relief programs.

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