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A Review of the Georgia Property Tax

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Dr. Peter Bluestone

A Review of the Georgia Property Tax

About the Property Tax

- Types of governments that rely on it
- Classifications of property
- Who bears the burden of the property tax
- Exemptions and property tax relief

Property Tax Levies by Type of Government (GA)

Source: Georgia Department of Revenue, Tax Digest Consolidated Summary

Type of Government	Share	1996	2007	2014
State		0.9%	0.8%	0.3%
School Systems		58%	57%	55%
Counties		27%	26%	29%
Municipalities		8%	7%	9%
Special Districts		6%	9%	7%

Classification of Property in Georgia

- Different types of property
 - Residential
 - Commercial (including apartments)
 - Industrial, agriculture, forestry and mining
 - Utility and railroad
 - Conservation, brownfields and historical

Georgia Gross State Property Tax Base by Components (billions 2014 dollars)

Source: Georgia Department of Revenue, Tax Digest Consolidated Summary

Component	1996 Value	Share	2007 Value	Share	2011 Value	Share	2014 Value	Share
Residential	\$102.2	43%	\$237.5	55%	\$190.9	52%	\$182.8	51%
Agricultural	\$10.7	5%	\$15.4	4%	\$11.7	3%	\$24.6	7%
Conservation Use	\$2.3	1%	\$13.2	3%	\$14.2	4%	\$0.0	0%
Commercial	\$58.5	25%	\$96.2	22%	\$91.7	24%	\$89.0	25%
Industrial	\$23.0	10%	\$27.3	6%	\$24.6	7%	\$24.8	7%
Utility	\$14.7	6%	\$13.9	3%	\$13.5	4%	\$14.4	4%
Motor Vehicle	\$22.0	9%	\$26.1	6%	\$22.8	6%	\$20.6	6%
Miscellaneous	\$2.9	1%	\$3.4	1%	\$10.2	3%	\$1.6	0%
Total Gross Digest	\$236.4		\$433.1		\$379.6		\$357.7	

Who Bears the Burden of the Property Tax?

- Is it a benefit tax?
- Is it a tax on capital?
- Is it regressive or progressive?

A Benefits Tax?

- One view is that property tax resembles a “user fee” for public goods and services
- Based on the assumption that the market properly reflects the value of these goods and services in property values – capitalization
- Tiebout sorting

A Tax on Capital?

- Alternative view is that the local property taxes form a “national network” of taxes on capital
- Deviations in this national average tax are caused by high-tax and low-tax jurisdictions
- Commercial property has incentive to locate in lower tax jurisdictions
- Can result in underfunding of government services – “Race to the Bottom”

Is it Regressive or Progressive?

- Based on benefit view, property tax is a tax on housing
- Given that lower-income individuals spend a larger portion of their income on housing compared to higher-income individuals, the tax is regressive
- Based on the capital taxation view, this is a tax on capital
- Given that higher-income individuals hold larger amounts of capital than lower-income individuals, this is a progressive tax

Consensus? Not Yet!

- A consensus among economists has not been reached
- The benefit model has more empirical support among urban and suburban jurisdictions
- The capital model fits better the location of commercial and nonresidential property

Property Tax Relief

- Increases in land value does not equate to increases in income – “house rich,” “cash poor”
- Occurs for some classes of property and some types of taxpayers
 - Senior citizens, low-income, vets and law enforcement officers/firefighters
 - Property tax has significantly increased in value
 - Special valuations for agriculture or conservation property

Property Tax Relief Mechanisms

- Freeze assessments or limit annual increases in assessments
- Limits on tax rates
- Limits on reliance of property tax
- Homestead exemptions
- Truth in Taxation program
- Tax deferral
- Tax credits and circuit breakers
- Consumption taxes as alternative revenue source

Homestead Exemptions

- Deduction from assessed value
- Must own and occupy the house
- Locally financed
- Special exemptions for certain types of homeowners, typically for elderly and low-income home owners
- Adds progressivity to the property tax burden on owner-occupied housing

Homestead Example

FMV Value	\$100,000	\$200,000
Assessed Value	\$40,000	\$80,000
Homestead	\$10,000	\$10,000
Taxable Value	\$30,000	\$70,000
Tax at 20 mils	\$600	\$1400
Effective tax rate	0.6%	0.7%

Homestead vs State Tax Credit

	Credit	Additional \$8,000 Homestead Exemption
Assess value	\$40,000	\$40,000
Deduct homestead exemption	(\$10,000)	(\$10,000)
Taxable value	\$30,000	\$30,000
Additional homestead exemption	0	(\$8,000)
Taxable value	\$30,000	\$22,000
Tax at 2%	\$600	\$440
Deduct HTR Credit (=2% of \$8,000)	(\$160)	0
Net Tax Liability	\$440	\$440

Circuit Breakers: Maine as of 2015

- No age limit, refundable state income tax credit
- Relieves 50% of property tax above 6% of income
- Credit starts to phase out at: \$33k for one person, \$43k for 2 and \$53k for 3+
- Maximum relief: \$600 under 65 and \$900 if 65 +
- Assumes property tax on rental property = 20% of rent
- Note the original Maine circuit breaker was more generous; it was replaced in 2013 with the Property Tax Fairness Credit, which has been modified in subsequent years
- Source: datatoolkits.lincolnst.edu/subcenters/significant-features-property-tax/Report_Residential_Property_Tax_Relief_Programs.aspx and <http://www.mejp.org/content/property-tax-fairness-credit-will-help-more-people>

Assessment Cap: Cook County 2004

- Assessment Cap of 7% (but there were limits)
- Provided relief to 75% of eligible home owners
- Benefits accrued primarily to low- and mid-value home owners due to cap structure: total benefits \$128M
- Loss of residential tax revenue was made up by other types of property: for instance ineligible residential and apartment owners paid \$44 million more
- Due to declining tax base rates often increased
- Seniors with frozen values suffered higher taxes due to rate increases
- Source: Property Tax Assessment Limits, Lessons from Thirty Years of Experience, Haveman and Sexton, Lincoln Institute of Land Policy

Truth in Taxation Program

- Require some type of hearing, notification or vote if assessments rise and rates are not rolled back so that collections remain the same as prior year
- Several states utilize these programs: Virginia, Tennessee, Utah and Maryland
- Study of Utah found full disclosure law helped stabilize rates (Cornia and Walters 2006)

Georgia State Property Tax Relief

Type of Benefit	Eligible	Program Name
Assess. Freeze	Elderly	Inflation-Proof Exemption
Assess. Freeze, Exemption	All Homeowners	Local Option Homestead Exemption
Credit	All Homeowners	Property Tax Credit
Deferral	Elderly/Low Inc.	Property Tax Deferral
Exemption	All Homeowners	General Homestead Exemption
Exemption	Elderly	Homestead Exemption
Exemption	Elderly	School Property Tax Exemption
Exemption	Elderly	State Homestead Exemption
Exemption	Vets and Spouses	Homestead Exemption for Disabled Veterans
Exemption	Vets and Spouses	Homestead Exemption for Unremarried Spouses of Servicemen Killed in Action
Exemption	Vets and Spouses	Homestead Exemption for Unremarried Spouses of Peace Officers and Firefighters Killed in Line of Duty

source: http://datatoolkits.lincolnst.edu/subcenters/significant-features-property-tax/Report_Residential_Property_Tax_Relief_Programs.aspx

Georgia State Property Tax Relief

- County school systems rate limit of 20 mills
- Can be overridden with local voter approval
- Independent school systems are not subject to the rate limit
- In 2007, 29 of the 159 county school systems in Georgia had a property tax rate of 18 mills or more
- Source: http://cslf.gsu.edu/files/2014/06/property_tax_limitations.pdf

Consequences of Relief Programs

- Higher rates on business property creates economic distortions and may affect location decisions
- Creates inequities between taxpayers as some properties are taxed more than others for the same services
- Contributes to urban sprawl
- Breaks the connection between taxes paid and benefits received

Conclusion

- School districts primary beneficiaries of property tax
- Georgia has placed some limitations on property tax but not generally over burdensome for local governments
- Local governments should proceed cautiously when offering property tax relief

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Thank You!

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