NEELEY MAKING NEWS

February 2018

WalletHub

February 27, 2018
2018's Property Taxes by State – by John Kiernan

Depending on where you live, property taxes can be a small inconvenience or a major burden. The average American household spends $2,197 on property taxes for their homes each year, according to the U.S. Census Bureau, and residents of the 27 states with vehicle property taxes shell out another $436. Considering these figures and the rising amount of debt in America, it should come as no surprise that more than $14 billion in property taxes go unpaid each year, the National Tax Lien Association has found.

And though property taxes might appear to be a non-issue for the 37 percent of renter households, that couldn't be further from the truth. We all pay property taxes, whether directly or indirectly, as they impact the rent we pay as well as the finances of state and local governments.

But which states have the largest property tax load, and what should residents keep in mind when it comes to meeting and minimizing their tax obligations? In search of answers, we analyzed the 50 states and the District of Columbia in terms of real-estate and vehicle property taxes. We also asked a panel of property-tax experts for practical and political insight. Read on for our findings and a full description of our methodology.

Ask the Expert: Stephen J. Lusch, Assistant Professor of Accounting in the Neeley School of Business at Texas Christian University

Do people consider property taxes when decided where to move? Should they?

Dr. Lusch: Tax is one of many variables that people consider when deciding where to move; however, it is seldom be a first-order determinant. Generally, I would expect that individuals consider factors such as job opportunities, crime rates, schools, and commute times, etc. before they typically consider property taxation in their moving decisions. In states where property taxes are high, such as my home state of Texas, the location of your property can make a big difference though. There are areas of the Dallas/Fort Worth Metroplex that if you purchase a house a block or two over you may pay a few thousand dollars less in property taxes per year because the property falls into a different county/city/school district, etc.

Overall, taxes, including property taxes, are a real cost of location decisions and thus should be considered in these decisions. However, the goal is to maximize the net benefits. There are benefits of certain areas and costs of certain areas. One such cost is tax, but that needs to be considered as part of the larger puzzle. In most instances, selecting location purely based on tax will very likely not result in the optimal decision.

Should nonprofits pay property taxes?

Dr. Lusch: This is a difficult question that has valid arguments on both sides. First, the general argument for not exempting nonprofits from property taxation is that they use many of the resources that are supported by the revenues of the property tax system (e.g., infrastructure, public safety, etc.). On the other side, the argument for exempting nonprofits from property taxation is that taxes would be an added expense that would decrease the funds available for that nonprofit's charitable mission. In addition, for nonprofit sectors that have paying "customers," say a private university, that property tax bill would likely, at least partially, get passed on to students through higher tuition.

It is worth noting that there are nonprofits that make voluntary payments to local governments even though they are exempt from property taxation. For example, in fiscal year 2014, Brown University made over $5 million of voluntary tax payments to the city of Providence. So there is some recognition by nonprofits that they are using government resources, and if able, should help pay for them.

Overall, I do not think that property taxes for nonprofits is a policy that is off limits. I think it is a policy that legislatures should think about. However, even if a jurisdiction decided to start collecting property taxes from nonprofits, they would likely still provide some preferences to them relative to other types of landowners. For example, subjecting property held by nonprofits to a lower rate, still exempting certain types or sizes of nonprofits from property tax, etc.

Should local tax policy be adjusted to rely more or less on property taxes versus other forms of taxation?

Dr. Lusch: One thing that is quite unique about tax policy is that a jurisdiction has a lot of autonomy in designing the tax system it believes will work best for it. Thus we see significant variation across the country in how state and local governments design tax systems.

Some states, such as Texas, have high average property tax rates; however, the trade-off is that Texans do not pay state income tax. Then you see other states, such as Hawaii, that generally have low property tax rates, but have high state income tax rates.

At the end of the day, governments need revenue, and they are going to collect that revenue from some sort of taxation.

An advantage of relying more on the property tax system relative to other taxes to collect revenues is that real property is fixed in location. That is, if you own a piece of land with a house on it, then it is very clear what taxing jurisdiction that property will be taxed in. Whereas with income taxes, there is the ability to engage in tax planning strategies to shift income from higher taxed jurisdictions to lower taxed jurisdictions.

A drawback of relying too heavily on the property tax system is that without sufficient controls, the tax can significantly burden property owners in periods of rising property values. There is a concept in tax system design known as the wherewithal-to-pay concept. The general premise is that the taxpayer should be paying the tax when he/she has the wherewithal to pay it. In the income tax system, this is fairly straightforward because the taxpayer receives salary/wages/investment income/etc. throughout the year and then files a tax return and pays the tax. In this case, the taxpayer has already received cash inflows related to the income and thus should have the cash available to pay the tax. However, property taxes are a function of the assessed fair market value of the property, so taxpayers are being taxed on increased value in a home that they have not received any cash inflows from.

So there are situations where a taxpayer purchases a home at a monthly payment that he/she can afford, but if that house drastically increases in value over time then the additional property taxes can really burden them, particularly if their wages/salary have not been increasing as similar rates. However, some ways you see this addressed is that some jurisdictions have a maximum year-over-year increase in assessed value of properties. So say the home actually increases in value by 10 percent this year, the law may cap that increase at say 2.5 percent for the purposes of calculating property taxes. In addition, there are jurisdictions that have property tax freezes for individuals over a certain age (e.g., 65+), so that these retirees do not get forced into the situation of leaving a home that they can no longer afford the property taxes on.

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Report Ranks Texas in Bottom in US Property Taxes – by Scott Morgan

A new report from WalletHub puts Texas near the bottom of the list in terms of property taxes and affordability. In fact, the report puts Texas sixth-to-last based on how much residents pay for what they own.

According to the report, a $185,000 home in Texas would cost a homeowner about $3,500 dollars a year. That’s only about $1,000 less than it would cost in New Jersey, the most expensive state to live in, and about $3,000 more than it would cost in Hawaii, which has the country’s lowest property taxes.

Dr. Stephen Lusch, an associate professor of accounting at Texas Christian University and a contributor to the WalletHub report, says some Texans are getting concerned with the double-digit increases in home values, but that as long as Texas remains healthy, a high property tax rate won’t likely turn anyone off from Texas.

He says Texas is attractive in terms of job opportunities, and as long as the state continues to have solid “first-order” priorities like good schools and low crime rates, nothing should change.

“If you start losing some of those kind of first-order benefits,” he says, then I think taxes becomes more and more of a factor.

Texas’ property tax rate is 1.84 percent. The median home value is $148,000.