What's It Worth?
Property Taxes and Assessment Practices*

BY TIMOTHY SCHILLER

Residential property taxes are both a major source of local government financing and a significant cost of owning a home. Tax limitation measures and relatively moderate gains in house prices during most of the 1990s tended to keep property taxes from rising rapidly in those years. But from the late 1990s to the mid-2000s, house prices once again rose sharply. Property taxes followed a similar path, bringing them to greater public attention once again. Now that house prices appear to have shifted to a level or downward trend in most parts of the country, there seems to be increasing concern that real estate valuations for property taxes are not promptly reflecting declining values. In this article, Tim Schiller focuses on how tax authorities measure value and calculate tax liabilities, the shortcomings of some of these processes, and the remedies that have been, or can be, implemented to make real estate assessment more accurate and equitable.

Residential property taxes are both a major source of local government financing and a significant cost of owning a home. Homeowners view rising house prices favorably, but rising property taxes, which are based on house values, are not regarded in the same light. When house prices move up rapidly, public concern about the resulting upward pressure on property taxes increases. Periods of rapid increases in house prices occurred in the late 1970s and middle 1980s, and state and local property taxes increased in those same years. (See Figures 1 and 2.) The rising real estate property tax burdens during that time led many states to adopt measures limiting their growth. An early and widely copied measure was California's Proposition 13, enacted in 1978 and amended in 1986 to be even more favorable to homeowners. Proposition 13 limited annual increases in assessed value to the annual change in the consumer price index or 2 percent, whichever was lower. Proposition 13 also required houses to be reassessed at market value when they were sold.

Tax limitation measures and relatively moderate gains in house prices during most of the 1990s tended to keep property taxes from rising rapidly in those years. But from the late 1990s to the mid-2000s, house prices once again rose sharply. Property taxes followed a similar path, bringing them to greater public attention once again, and by 2007, limits on residential property tax assessments were in place in 20 states.[1] Now that house prices appear to have shifted to a level or downward trend in most parts of the country, there seems to be increasing concern that real estate valuations for property taxes are not promptly reflecting declining values.[2] And

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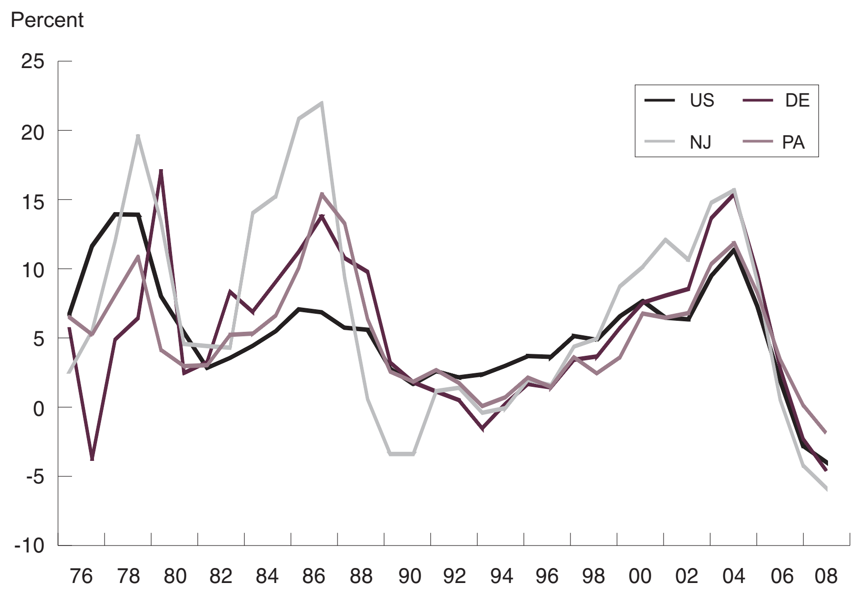
*The views expressed here are those of the author and do not necessarily represent the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.

[1] See the report by Mark Haveman and Terri Sexton.

[2] Analysis of property tax collections and house-price appreciation between 1980 and 2008 indicates that collections increased less rapidly than house prices during this period, in part perhaps because of the limits on increased assessments. Collections increased about 4 percent for each 10 percent increase in house prices for the nation as a whole. However, it appears that tax collections increased more for a given amount of house-price appreciation in areas where appreciation was slower and that tax collections have fallen by less than the 4 versus 10 percent ratio as house prices have declined in recent years. See the article by Byron Lutz.

FIGURE 1

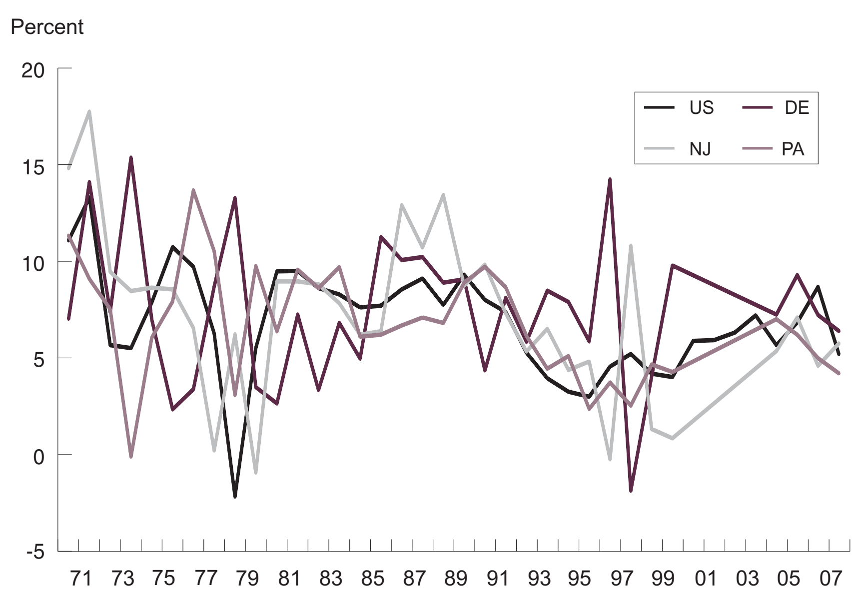
House Price Annual Change



Source: Federal Housing Finance Agency

FIGURE 2

Annual Change in Property Tax Collections



Source: U.S. Census Bureau

whether house prices are rising, falling, or flat, there are public complaints that property tax burdens have been inequitable across property owners, with similar houses subject to unequal taxes.

Taxes on real property, such as houses, are *ad valorem* taxes; they are based on the monetary value of the property. Consequently, a fundamental issue in the subject of real estate taxation is the valuation, or appraisal, of properties, which is part of the overall real estate tax assessment procedure. The accuracy of valuations at the time they are made, changes in valuation over time, and the equity of valuations among properties are the major points of concern. With rapid fluctuations in residential property values over the past 10 years or so — first rising, then falling — valuation has come under increasing attention. This attention is especially justified during periods of rapid change in house prices and fluctuations in the pace of house sales, both of which make accurate appraisals more difficult.[3]

This article takes a look at real estate tax assessment practices that are common among local government jurisdictions in the U.S. — counties, municipalities, school districts, and special-purpose districts — which obtain most of their revenue from property taxes. The focus is on how tax authorities measure value and calculate tax liabilities, the shortcomings of some of these processes, and the remedies that have been, or can be, implemented to make real estate assessment more accurate and equitable.

FUNDAMENTALS OF ASSESSMENT

Valuation of properties is a critical part of property tax assessment.

[3] See the article by Leonard Nakamura.

Assessment is the process by which a taxing authority identifies taxable properties, determines who is responsible for paying taxes on them, assigns values to them for taxation, and calculates the tax liability of the property. These last two steps — valuation and computation of tax liability — are frequently conflated in the public discourse on the subject of property taxes, but it is important to view them separately when analyzing the process of property taxation.[4]

In most states, the responsibility for property tax assessment resides with the county government. Among the three Third District states, this is the case in Pennsylvania and Delaware. In a few states, both county and municipal governments have assessment authority. This is the case in New Jersey, the other Third District state. In most states, a statewide agency has authority to set assessment standards, assist local assessors, and monitor local assessment processes. However, in a few states that have small numbers of local assessment jurisdictions, there are no state-level supervisory agencies. In the Third District, Delaware has no state-level supervision; assessment is conducted by each of the state's three counties. In Pennsylvania, the state supervisory agency is the State Tax Equalization Board, and in New Jersey it's the Division of Taxation.[5]

The assessment basis for real estate tax, required by most states' laws, is an estimate of a property's value. There are three approaches to this estimation: market value, rental value, and replacement value. The market value method (also known as the sales comparison and capital value methods) determines the value of the property on the basis of the price at which it could be sold in the open market in an arm's length transaction (a sale between unrelated parties in which there is no discounting or inflating of value intended to favor the seller or buyer). The rental value (also known as the income method) analyzes the income stream or rent produced by the property to estimate the amount that might be invested in the property in order to obtain the projected income. The replacement or construction cost method estimates the cost of constructing the building to be valued using current costs for similar materials and design features, with an adjustment to account for physical depreciation of the building being valued. Market value is generally used for owner-occupied residential properties for which recent sale prices of a sufficient number of similar properties are available. The rental value approach is, of course, most often used for properties that are commonly rented, such as apartment buildings and commercial buildings. The replacement cost method is usually used for new construction, for which there are few comparable properties to make a sales comparison approach feasible.

The tax liability of a property is determined by applying the tax rate applicable to that property to the value of that property. Most taxing jurisdictions have more than one tax rate. The most common form of varying tax rates is the classification of property types into groups, usually according to the function the property serves, with different rates for each group. For example, assigning properties to such classifications as residential, commercial, industrial, or agricultural — with different tax rates for each class — is common. Other classifications include historic sites and raw land.

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Finally, some uses of property qualify for total or partial exemption from property taxes. In many, if not most, jurisdictions in the United States, the following types or uses of property are exempt: charitable, educational, and religious organizations; governments; and hospitals. Exemptions can also apply to property owners. Common, usually partial, exemptions of this type are for homeowners in general (known as homestead exemptions) or for homeowners meeting certain criteria of age, income, or disability. Taxing jurisdictions use other means to reduce effective property taxes, such as rebates and property tax credits against state income taxes. These are common across the country, including in the three Third District states. (Property tax reductions are discussed in more detail below.)

THE VALUATION PROCESS

The structure of the assessment process and the tax rates and classifications used by a taxing jurisdiction set the framework in which proper-

[4] See the book by Richard Almy, Alan Dornfest, and Daphne Kenyon.

[5] Equalization is a process to ensure that all properties are assessed at the same percent of value. It is discussed in more detail later in this article.

ties are valued and their tax liability is determined. These broad features apply in general to all properties, and they are altered only occasionally. Valuation, on the other hand, applies to each individual property, and assigned valuations can be changed with more frequency than the features of the overall property tax system. Thus, valuation is of more immediate concern to individual property owners, and the details of the valuation process are of vital interest to most.

The valuation process has several sequential steps. It begins with identifying properties and describing their features, including aspects of the property that might add to or detract from their value, such as ancillary rights and easements. Information about the property is analyzed in order to account for all of the features that affect its value, such as size, age, and location. The market value of these features is estimated for the market in which the property is located. After these preliminary steps, one or a combination of the valuation methods described earlier is used to compute the property's assessed value. Property owners may appeal the assessed value and, if successful, have the property's assessed value changed (lowered). The burden of proof is on the property owner to show that the assessed value is too high. Common bases for appeals are that the assessment used erroneous data about the property or that the assessed value is greater than that of comparable properties by more than the legally allowed variance (commonly 15 percent). After the assessment is finalized the tax rate applicable to the class of property (see below) is applied, taking exemptions into account, to compute the tax liability.

Residential properties are not typically valued individually on a case-by-case basis. Instead, appraisers use large data sets of residential property information to calculate typical values for similar properties, and they may apply adjustment factors for some variations in features from one property to another. This process is known generically as mass appraisal, and when done with computerized systems, the entire process is referred to as computer-assisted mass appraisal (CAMA). The use of statistical techniques in this process has increased as computerization of assessment procedures has advanced, and now many jurisdictions, including some within the Third District, use such a technique. Mass appraisal systems are used because they are economically efficient and because they are a means of valuing properties on a consistent, equitable basis.

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Under a mass appraisal system, the actual sales price of any given property is not the basis of its value for property tax assessment. Instead, a group of similar properties is evaluated as of a common date using common data elements and a standard — usually statistical —method. Properties included in the group should be those located in the same market area, that is, properties that might be considered by a potential buyer looking to purchase a property in a given geographic area. The data elements used are those features for which market values can be estimated for the properties in the group, such as location, size of lot, and the number of bathrooms, garages, and stories, and so forth. Actual sales price data are obtained for properties in the group of properties subject to mass appraisal. The software then estimates how much each feature contributed to the value of each sold property: so much for each bath, so much for each quarter acre of lot size, and so forth. Then these valuations are applied to all of the houses in the neighborhood. Because location is an important factor in determining a property's market value, the geographic neighborhood should be compact enough to reflect similar values. Some jurisdictions have legal requirements that land and structures on a property be valued separately. This can be done either by an independent estimate of the land value or by using computerized statistical models that include techniques for separating land and structure values.

ACCURACY AND EQUITY IN APPRAISALS

As noted at the beginning of this article, equity in property appraisals is a perennial concern for property owners, assessors, and the supervisory agencies charged with review of assessment practices and enforcement of laws regarding property taxation. Equity is the assurance that similar properties are similarly appraised. An essential prerequisite for this is full and accurate data on properties with respect to those features that affect a property's value. An initial step in ensuring overall accuracy in the assessment process is to make certain that each property to be assessed is accurately described in both the data entered in the mass appraisal system as well as the jurisdiction's property tax records. (These records — called a cadastre — include the location, description, and ownership of the property.)

Assessors or trained data collectors compile these data by physically inspecting properties. The inspection focuses on measurable features such as land area, square footage of the structure, number of garage spaces, and so forth, including factors that affect the market value of properties in the locations covered (e.g., riparian rights of riverfront properties, views in scenic areas, and so forth). In addition to objective and measurable features, qualitative features related to such things as materials used in construction and condition of the structure need to be taken into account. These subjective evaluations should be made by experienced appraisers with the requisite knowledge.

Data collection should be an ongoing process and subject to quality control procedures and feedback from property owners. Typical quality control edits will produce alerts for missing or inconsistent data. Periodic review of recorded data against actual properties will help ensure that the data being used for tax assessment are accurate and current. However, frequent on-site inspections are costly for assessment agencies and inconvenient for property owners, so less intrusive means can be used for updating data, for example, street-view and aerial photography. In addition, assessment agencies can receive copies of building permits to inform them of additions and improvements that will prompt reappraisals. For both initial appraisals and reappraisals, property owners should receive reports with all of the relevant appraisal data and be given an opportunity to verify or correct each data element.[6]

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A property's appraised value is determined by its actual features and by the market value of those features. So, in addition to the need for accuracy with respect to the physical description of the property (including location features), there is a need for accuracy in determining market value. As noted earlier, the market value approach is the common method of valuing property for taxation in the United States, and this is usually done by using a sales comparison approach, that is, basing the estimated value of a property on actual sale prices of similar properties. However, care must be used in selecting the actual sale prices used, because not all sales are transacted at true market values. In fact, both economic and legal definitions of true market value govern the values that can be used for the sales comparison approach. Basically, both definitions emphasize that only those prices that represent fair sale prices should be used. Fair sale prices are those that obtain in transactions in an open market, between a willing buyer and seller — both acting prudently and knowledgably — without undue stimulus and with the price unaffected by special financing or sales concessions.[7] Furthermore, only prices representing so-called "arm's length" transactions should be used, that is, transactions between unrelated parties in which neither is altering the price to benefit the other.

Despite the emphasis on sale prices in the market value approach, the recent sale price of a property should not be used as a basis for reassessing it. This practice — known as "sales chasing" — can result in unrepresentative and inequitable appraised values because some properties (the recently sold ones) are reappraised, while others (properties not sold) are not. Furthermore, because at nearly all points in time most properties in an area have not been recently sold and therefore do not have a recent sale price, sales chasing gives undue weight to the sale prices of a few (recently sold) properties in the determination of the typical or representative value of similar properties. The resulting lack of uniformity

[6] See the standard on mass appraisal issued by the International Association of Assessing Officers.

[7] See the sales validation guidelines in the standard on ratio studies issued by the International Association of Assessing Officers.

in valuation will reduce the validity of mass appraisal methods.

Besides the question of the correct transaction to use in the market value approach, there is also the question of the correct selection of properties to use for comparison. In addition to using properties with similar physical features, the properties used for comparison should be in the same geographic or market area, should be of similar age or condition, and should in nearly all respects be considered as reasonable alternatives for a prospective purchaser.

Market values change over time. Indeed, it is during periods of rapidly changing market values that homeowners and other property owners are most likely to question the accuracy of their properties' appraisals. Thus, just as frequent appraisals help ensure accuracy with respect to the data pertaining to the appraised properties, they also help ensure that market values are current. In fact, the International Association of Assessing Officers recommends annual assessments when the market value or sales comparison approach is used, and most states require taxing jurisdictions to conduct reassessments on a regular schedule, ranging from annually to at least once every two to five years. However, the practice of reassessing properties whenever they are sold — which is the practice in California and in some jurisdictions in other states — is detrimental to equity, especially when overall market prices are changing rapidly, because it results in similar properties being appraised at different values solely on the basis of whether they have been recently sold. (In fact, such a practice is equivalent to sales chasing if it produces assessments at or near the sales price of the individual property rather than the average assessed value of similar properties.) Instead, short-term general price trends affecting a group of properties subject to mass appraisal can be used to obtain rough estimates of current values for an annual assessment update, although for longer periods of time or during periods of rapid or volatile price changes, it is preferable to conduct complete reassessments, including physical reviews of properties, every four to six years.

The basic means of evaluating the accuracy and equity of appraisals is the ratio study, which is in common use throughout the United States. As the name implies, a ratio study measures the ratio of appraised or assessed values to an independent measure of market values, usually represented by sale prices, ideally sales that have occurred in a recent, short period of time. Like mass appraisal, a ratio study is based on a sample of properties in a group for which actual sale prices can be obtained. Also as in mass appraisal, properties sampled in a ratio study can be stratified. Stratification can be by type of property, geographic area, and so forth. The purpose of stratification is to identify and ultimately correct lack of uniformity in appraisal-to-market value ratios that might be found across different strata of properties. Ratio studies are conducted to evaluate the mass appraisal method used in the assessment process, to determine whether statutory requirements for appraisal values are being met, and to determine time trends in market values. As part of a general revaluation of properties, a ratio study is used to review current appraisals, establish preliminary values of new appraisals, and evaluate final appraisals in conjunction with the appeals process for new appraisals.

Because the purpose of the ratio study is to evaluate the validity of the appraisal process, the sample of properties used should be representative of the total group of properties covered by that appraisal process, and it is important that the sale prices used be true fair market prices. Furthermore, the properties used should be reviewed to make sure that sales chasing has not occurred. This is because sales chasing will result in a spurious accuracy of appraised value —close to actual sale prices — that is not truly indicative of the accuracy of the appraisal process itself.

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The ratio study answers two primary questions: 1) How close to 1.00 (when the appraised value equals the full market value) is the average ratio of the properties under review? 2) How much variation is there in the ratio from property to property?

The first question addresses the accuracy of appraisal values in general. If the ratio is 1.00 or close to 1.00, appraisals are generally accurately measuring market value, although they might not be equally accurate for each individual property. It is also important to determine the average ratio in those jurisdictions in which there are legal requirements that the average ratio be 1.00 or some other legally specified value (less than 1.00).

The second question, about variation, addresses equity. Two kinds of equity need to be considered. One, called horizontal equity, is measured simply by how much variation there is in the ratio from property to property, with greater variation indicating greater horizontal inequity. The other kind of equity, called vertical equity, is a measure of possible systematic differences in the appraisal-to-market value ratio between high-value and low-value properties. Greater ratios for low-value properties are regressive, and greater values for high-value properties are progressive. Ideally, there should be neither progressivity nor regressivity in the ratio because the purpose of appraisals is to establish market value only, not to indirectly apply differing tax liabilities.

In many states, legal requirements address acceptable measures of the ratio with respect to both its level and its variation. In practice, actual assessed values may or may not be equal to 100 percent of full market value. In many states, laws or court rulings permit a lower ratio, usually known as the common level ratio, which can vary from one taxing jurisdiction to another. However, within a taxing jurisdiction, little or no variation in the ratio from property to property is permitted within each property classification. Supervisory agencies enforce this requirement in a process known as equalization (more specifically referred to as direct equalization), and reference to deviations from the common level ratio can be used in the assessment appeal process for individual properties. As noted earlier, enforcement is one of the responsibilities of the State Tax Equalization Board in Pennsylvania and the Division of Taxation in New Jersey. Delaware does not have direct equalization.

Besides its use in determining assessed values for tax purposes, the common level ratio is used in determining the distribution of state government financial assistance to local school districts in many states, including the three Third District states. This process is often referred to as indirect equalization because it does not affect assessed values of individual properties, and it is usually done by the agencies responsible for direct equalization (where this occurs). Property values are critical to public school financing because local property taxes are a primary source of this financing. When states provide subsidies to local school districts, they provide more funds to those districts that have less taxable property, measured by total property value. The state cannot simply use the values determined by local assessors because localities can have different assessment ratios. Therefore, the state must make adjustments to assessed values in order to measure each district's total taxable value. This is done by using the common level ratio to determine the total value of properties in each district, regardless of the ratio used for local tax purposes, and then using this total value to compute the amount of state aid to which each district is entitled.

ASSESSMENTS AND TAX LIMITATION

To calculate the tax liability of a property once its assessed value is determined, the tax rate for the class of property to which it belongs is multiplied by the assessed value. The tax rate is usually expressed in units called mills, which represent one-thousandth of a dollar, so that a millage rate of 1 would mean $1 of tax for each $1,000 of assessed value. As noted at the beginning of this article, public concern about the burden of property taxes has grown, and this concern has engendered more critical interest in assessments. However, it is the combination of the tax rate and the assessed value that determines the tax bill, and attempting to accommodate all concerns about the property tax burden by means of the assessment can be ineffective and even counterproductive.

Property tax limitation through limits on assessed values originated in California with the passage of Proposition 13 in 1978. Besides limiting the property tax rate, Proposition 13 limited increases in assessed value to the change in the consumer price index or 2 percent a year, whichever is lower. By 2006, at least 20 states had statewide or local limits of some sort on the rate at which assessed values could increase each year, most often setting a fixed percentage or an upper limit at the rate of change in the consumer price index. None of the three Third District states has such limits. In states with limits, residential properties are covered, and in some states, other types of properties have limits as well. Most states with limits have exceptions for acquisitions, resetting assessed value to reflect market value when a property is sold.

A limit on the amount by which assessed value can be increased might have appeal as a way to set a limit on the amount by which the tax burden can increase, but an assessment limitation has ramifications that can seriously reduce or negate its usefulness in mitigating tax increases.[8] The most obvious drawback is that if the total tax levy is fixed or rising, any adjustment

[8] See the article by Richard Dye and Daniel McMillen.

that reduces the tax liability of some properties by lowering their assessed value below what it would have been in the absence of a limit must be offset by increasing the tax liability of other properties that do not get reductions in assessed values below what they would have been in the absence of a limit. Not obvious is the fact that the tax burden can be shifted among properties even when they are all covered by the assessment limitation. This can occur when properties appreciate at different rates while the total tax levy to which the properties are collectively subject remains unchanged or increases. Properties that appreciate furthest above the assessment limit will have their proportion of the total tax levy reduced below what it would have been in the absence of the limit, and properties that appreciate less far above the limit will have their proportion of the total tax levy increased above what it would have been without the limit. This result has in fact occurred in several states and other taxing jurisdictions. Consequently, some properties that were intended to benefit by the limit do not, in fact, get the benefit. This reduces the usefulness of assessment limits as a deliberate policy tool to provide property tax relief. However, there are other means of doing so that enable the taxing authority to direct benefits more precisely to intended beneficiaries.

OTHER FORMS OF TAX RELIEF

Several alternatives to assessment limits can restrict property tax burdens — which is the goal of assessment limits — without unintended consequences. Like all forms of tax relief, alternatives to assessment limits shift the tax burden from favored groups to others. However, these other means of relief do not operate through fortuitous changes in property values, as assessment limits do; instead, they can be directed to specific types of property or property owners.[9]

Property classification is a method by which many jurisdictions place different tax burdens on different types of properties, with the intent of placing lighter tax burdens on some types of property relative to others. In this method, properties are placed in different categories depending on their use. Generally, jurisdictions that use property classification distinguish between residential and commercial uses of property, and some jurisdictions have other classes, such as agricultural or charitable uses. With property classification, taxes imposed on properties in different categories are varied through the application of varied assessment ratios (ratio of assessed value to market value) or varied tax rates. Most jurisdictions that use classification favor residential and other types of properties with lower assessment ratios or tax rates and apply higher assessment ratios or tax rates to commercial properties. In the Third District, classification is not widely used among taxing jurisdictions, although favorable treatment of agricultural land is common. A drawback to property classification is that tax burdens will be disproportional to value; thus, the goal of tax equity is subordinated to the goal of tax limitation. Furthermore, higher taxes on some uses of property are a disincentive to those uses, whether intended to be so or not.

In the Third District, classification is not widely used among taxing jurisdictions, although favorable treatment of agricultural land is common.

Tax revenue limits are another alternative to assessment limits as a means of constraining increases in property taxes. Several states, including some with assessment limits, also have revenue limits. In the Third District, all three states have revenue limits. (Pennsylvania also has tax rate limits, as do many other states.) Tax revenue limits set maximum amounts by which the total property tax levy in a jurisdiction can be increased. Revenue limits by themselves affect only the total tax collection, not the tax burden on individual properties. This is especially the case when property values are changing over time. For example, if increases in value are not equal across all properties, those properties that appreciate more rapidly will be subject to a greater proportion of the total tax levy. Thus, just as in the case of property classification, tax equity is not addressed by revenue limits. To limit tax burdens on individual properties, tax revenue limits need to be supplemented by limits on individual tax liabilities.

Another means of providing property tax relief is the use of full or partial exemptions from property tax liability. Full exemptions are granted primarily for property owned by federal, state, and local governments, and by educational, charitable, and religious institutions. An exemption

[9] See report by Terri Sexton and the article by Joan Youngman.

for owner-occupied housing, known as the homestead exemption, is usually a partial exemption. Homestead exemptions are one of the oldest and most common ways in which taxing jurisdictions limit the property tax burden on owner-occupied housing. They are available in nearly every state, including the Third District states. In some jurisdictions, the exemptions are available to all homeowners; in others, they are available only to certain people, such as veterans, senior citizens, or the disabled. The exemption is commonly applied by reducing the assessed value of the owner-occupied property by either a fixed percentage or a fixed dollar amount. A percentage exemption will limit increases in tax liability as assessed values increase — a major concern that motivates efforts to limit assessments — but a dollar-amount exemption will not limit tax increases unless it is raised in line with any rise in assessed values.

Rebates of property taxes and credits of property taxes against other taxes for homeowners are forms of relief that are similar to exemptions. In some jurisdictions, these various forms of relief apply to property types other than homesteads. In the Third District, these forms of relief are available to most homeowners, and they are also provided in different amounts for the elderly and disabled. Some form of property tax relief is also provided in the Third District states (and others) for some types of property other than homesteads, such as agricultural land.

When any kind of property tax relief is based on the individual property-owner's income, it is known as a circuit breaker. Circuit breakers are available in over half the states, although they may be officially known by some other name, typically as a rebate or credit. In most states that have circuit-breaker programs, the state government provides revenue to the local jurisdictions to replace funds not collected from property owners receiving the tax relief. With circuit breakers the amount of property tax relief is related to income in one of three ways: 1) single threshold; 2) multiple thresholds; or 3) sliding scale. With a single threshold, the maximum amount of property tax is limited to a fixed percentage of income for all property owners. With multiple thresholds, the percentage limit rises with income. This feature imparts some progressivity to the property tax, increasing it as a percentage of income as income rises. With a sliding scale, a range of income brackets is established, and all property owners whose income falls within a certain bracket receive the same percentage reduction in property taxes, with the percentage of reduction being greater for lower-income brackets and less for higher-income brackets. Thus, sliding scale circuit breakers are also progressive. In some states, progressivity is introduced by limiting the amount of tax relief provided by circuit breakers to houses below an assessed value limit.

In the Third District, circuit breakers are available in Pennsylvania and New Jersey. Pennsylvania's program, a property tax rebate program, is available only to the elderly; it is a sliding scale program with four brackets and an income ceiling for eligibility. New Jersey's program, a homestead credit/rebate program, is not restricted by age, although it does provide more relief to the elderly. It is a sliding scale program with three brackets for homeowners 65 years and older and two brackets for those under 65. It also has an income ceiling. Both the Pennsylvania and New Jersey programs are available to renters as well as homeowners in recognition that part of their rent covers property tax. In both states, the amount of tax relief available under the renters' program is less than the amount available under the homeowners' program.

Another sort of property tax relief is provided by tax deferral, which allows property owners to delay paying property taxes until their property is sold or their estate is settled. These are often restricted to elderly, disabled, or low-income property owners. Deferral programs are available in taxing jurisdictions in around half of the states, including Pennsylvania and Delaware in the Third District.

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SUMMARY

Rising property tax burdens in the latter half of the last century brought greater public attention to the issue of residential property assessment. Limits on increases in assessed value became a major part of efforts to limit increases in homeowners' property tax bills. As of 2006, statewide or local limits on increases in assessed value of residential property were in effect in 20 states. However, assessment limits, by themselves, cannot limit tax bills unless tax rates are also limited. In fact, unless the total tax burden is restricted, assessment limits without tax rate limits can result in increased tax bills for some homeowners and reduce equity across properties. This has been the experience in several states and tax jurisdictions in the wake of assessment limits as total tax burdens have shifted more toward slowly appreciating properties than rapidly appreciating properties. There are remedies for many of the problems associated with rising assessments and property taxes. Principal remedies are revenue limits, exemptions, rebates, and deferrals. These measures can limit increases in the property tax burden in ways that do not have the unintended consequences of assessment limits applied without such measures. However, ultimately, limits on property taxes can be secured only by substituting other sources of revenue or by limiting spending by the taxing jurisdictions that rely on property taxes.

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