

SPECIAL REPORT

October 2006
No. 146

Property Tax Collections Surged with Housing Boom *Will Localities Respond to Housing Dip with Higher Rates?*

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Introduction

No tax riles the American people more than property taxes, especially real estate taxes that are based on the value of their homes and land. According to a recent Tax Foundation poll, property taxes are thought to be the least “fair” of all state and local taxes.

Most likely, part of the reason for this loathing is that taxpayers are more acutely aware of what property taxes cost them than

governments have been over rising property tax bills. Governors run on campaign platforms that appeal to voters’ desires to cut property taxes. School board elections and local referenda are dominated by the issue of property taxes. All manner of legislation has been justified by the claim that it will provide property tax relief: new taxes on income, new sales taxes, new slot machines or lotteries, new cigarette taxes, etc. The list goes on and on.

It is no wonder that politicians are talking so much about property taxes: recent tax collection data is a chronicle of rapidly rising property taxes.

Key findings:

- *Property taxes highest in the Northeast, Texas, Illinois, and Wisconsin*
- *New York and New Jersey dominate list of high-tax counties*
- *About half of all property taxes go to public schools*
- *Property taxes rose faster than incomes from 2002 to 2004*
- *Housing market decline may force local governments to cut spending or raise property tax rates*

they are of income, payroll, corporate, or sales taxes. Sometimes, property taxes are paid into an escrow account without much personal attention from the taxpayer, but often property taxes involve the actual writing of a huge check to the local government.

Regardless of the reason for this intense anti-tax sentiment, the most heated debates in recent years throughout state capitals and local

Which Governments Rely on Property Tax Revenues?

Property tax on real estate is almost entirely the province of local governments, especially school districts. State-level property taxes do exist in 38 states, but those are rarely levied on real property. Rather, they are levied on personal property such as cars and boats. Even these taxes are fairly trivial, providing less than one percent of total state revenue.

Local governments, on the other hand, collect an enormous portion of their tax revenue from property taxes — 73 percent in the most recent year. Even counting the significant amount of non-tax revenue that local governments receive from federal and state governments, local property taxes still amount to 25 percent of all local revenue.

Within local government, school districts are the main recipient of property taxes. K-12 educational systems still have a fairly high degree of local autonomy in the U.S., and as a

Table 1
Property Taxes Are Important Source of Education Funding, Fiscal Year 2003

State	Percentage of Total Education Revenue by Source					
	Federal Government	State Government	Local Total	Local Government Property Taxes	Parent Gov't Contribution	Other Sources
U.S. Total	8.9%	47.1%	43.9%	28.7%	7.6%	7.4%
Alabama	11.7%	55.5%	32.8%	13.8%	0.0%	19.1%
Alaska	19.4	54.9	25.7	0.0	20.9	4.9
Arizona	11.8	44.9	43.3	33.6	0.0	9.7
Arkansas	12.5	72.1	15.4	7.8	0.0	7.6
California	11.4	54.5	34.1	24.9	1.2	8.0
Colorado	6.7%	43.7%	49.6%	40.2%	0.0%	9.3%
Connecticut	5.0	35.3	59.7	0.0	53.8	6.0
Delaware	8.1	64.0	27.9	22.6	0.0	5.4
Florida	10.1	44.4	45.6	36.9	0.0	8.7
Georgia	8.5	44.8	46.7	30.8	0.0	15.9
Hawaii	11.1%	86.6%	2.4%	0.0%	0.0%	2.4%
Idaho	10.2	58.2	31.6	27.9	0.0	3.7
Illinois	8.6	35.5	56.0	51.3	0.0	4.7
Indiana	6.4	49.6	44.0	35.3	0.0	8.8
Iowa	8.3	46.2	45.5	34.5	0.0	11.0
Kansas	7.8%	51.4%	40.8%	33.3%	0.0%	7.5%
Kentucky	11.8	57.8	30.4	20.8	0.0	9.6
Louisiana	13.8	48.0	38.2	14.6	0.0	23.6
Maine	8.9	40.7	50.4	20.2	27.2	3.0
Maryland	6.4	37.7	55.9	0.0	51.9	4.0
Massachusetts	6.5%	39.8%	53.6%	0.0%	43.0%	10.6%
Michigan	7.9	62.0	30.0	24.4	1.0	4.6
Minnesota	6.0	71.4	22.6	13.0	0.0	9.6
Mississippi	14.9	54.9	30.3	23.7	0.1	6.6
Missouri	7.9	44.2	47.9	35.9	0.0	11.9
Montana	15.2%	44.4%	40.4%	25.3%	0.0%	15.2%
Nebraska	9.0	32.8	58.2	46.3	0.0	11.9
Nevada	7.2	60.4	32.4	27.4	0.0	5.0
New Hampshire	5.6	45.8	48.6	38.5	6.6	3.5
New Jersey	4.3	42.4	53.3	43.8	3.4	6.0
New Mexico	17.2%	69.7%	13.1%	9.9%	0.0%	3.2%
New York	7.5	43.6	48.9	28.1	16.2	4.6
North Carolina	9.7	57.9	32.5	0.0	28.4	4.1
North Dakota	15.2	38.1	46.7	37.4	0.0	9.2
Ohio	6.9	43.9	49.2	40.3	0.0	8.9
Oklahoma	12.8%	51.1%	36.1%	25.9%	0.0%	10.2%
Oregon	9.1	52.7	38.2	29.2	0.0	9.0
Pennsylvania	8.0	35.9	56.1	44.1	0.0	12.0
Rhode Island	7.2	40.5	52.3	4.8	45.6	1.9
South Carolina	10.4	46.0	43.6	34.4	0.0	9.2
South Dakota	15.6%	34.2%	50.3%	42.6%	0.0%	7.7%
Tennessee	11.0	43.4	45.6	0.0	30.3	15.3
Texas	10.5	36.8	52.7	48.5	0.0	4.2
Utah	10.0	55.3	34.7	29.3	0.0	5.4
Vermont	8.0	68.0	23.9	18.3	0.0	5.6
Virginia	7.0%	38.7%	54.3%	0.0%	51.0%	3.3%
Washington	8.5	61.8	29.7	23.4	0.0	6.3
West Virginia	11.3	60.0	28.7	25.5	0.0	3.2
Wisconsin	6.1	52.2	41.7	37.1	0.2	4.5
Wyoming	9.9	52.1	38.0	26.8	0.0	11.2
Dist. of Columbia	15.4%	-	84.6%	0.0%	83.7%	0.9%

Note: Tax payments are actual collections as reported to the Census Bureau by state and local governments. Business and other property taxes included along with residential real estate taxes. Data for FY 2004 will be available at <http://www.taxfoundation.org/publications/show/1918.html>.

Sources: *Survey of Government Finances*, U.S. Census Bureau; and Tax Foundation calculations.

result, school boards control property tax policy in many jurisdictions. In some states, however, the educational system is structured to give more control to county or municipal authorities, or even to the state government.

Where state-level officials have more control — Alaska, Connecticut, Hawaii, Maryland, Massachusetts, North Carolina, Tennessee and Virginia — the school districts may still set their budgets and possibly the rates of property tax that will fund the budgets, but they do not receive the revenue directly. Instead, they depend on a “parent government” to parcel out the funds. A total of 18 states have school districts that receive some form of funding from local parent governments.

Table 1 details the variety of revenue sources for school districts, and it shows the role property taxes (and parent government contributions, which are funded mainly through property taxes) play in the funding of each state’s educational system. It is a major role: property taxes and parent government contributions combine to provide over one-third of all education funding in the United States. In some states, it amounts to over half of all funding. Typically it’s a smaller funding source in low-income states, and outside support from state and federal governments takes up the slack.

Where Are Property Taxes Highest?

Much discussion on property taxes raises the question: Where are property taxes the highest? Logically, they are higher in areas that have high rates and/or high assessments. High collections are typically seen in jurisdictions where elected officials are committed to spending generously on public services, usually on public schools. Except in areas with a disproportionate share of valuable property, this high level of tax collection can only be achieved by setting high tax rates.

Although the administrative process of levying property taxes varies greatly from state to state and even within states, the basic concept is the same everywhere: the property owner must pay a percentage of the property’s value to the local government each year.

Unlike state-level taxes on income and sales which stay at the same statutory rate until

a new rate is voted on by the legislature, local property tax rates are typically set each year by local officials as part of the budget process. The overall county or city rate is usually not the total rate because within counties and even overlapping into other counties, there are often

special districts with add-on rates. These are devoted to funding public facilities such as community colleges, water treatment plants, etc.

After the overall rate has been decided, property tax administration is handled by the county or city assessor's office. An assessor determines the value of every parcel of real estate, either by visual inspection or comparison to recently sold, similar properties.

He then multiplies a property's fair market value by a percentage called the assessment ratio. Property tax administration would be easier to understand if every jurisdiction had a 100 percent assessment ratio. The assessor and the property owner would simply multiply the fair market value by the property tax rate to determine tax liability. However, many states have constitutional or statutory requirements that only a certain percentage of property value can be taxed: four percent in South Carolina, ten percent in Arizona, etc. In other states, localities are permitted to change the assessment ratio or the rate or both. This intermediate step causes much confusion, but the math is fairly straightforward:

fair market value x the assessment ratio x the tax rate = effective tax rate.

Table 2, courtesy of the Washington D.C. Department of Revenue Analysis, shows how this is done as it calculates the effective statutory rates in the largest city of each state for 2004.

There is another way to calculate the effective property tax rate because in many cases, exemptions, credits, or special rates are applied to some homeowners, making statutory rate comparisons less accurate. In the analysis below, the statutory rate and the assessment ratio are ignored and the final tax burden is calculated using Census-reported data on taxes paid and home values.

State-Level Data

New data released in May by the Census Bureau details each state's finances for fiscal year (FY) 2004. Included in the datasets are property tax collections for each state at both the state and local level. Figure 2 gives the property tax collections per capita and as a percentage of personal income for each state.

Table 2
Residential Property Tax Rates for Largest U.S. Cities

Rank	City	State	Statutory Rate Per \$ 100	Assessment Level	Effective Rate Per \$ 100
1.	Houston	TX	\$ 2.99	100.0%	\$ 2.99
2.	Providence	RI	2.97	100.0	2.97
3.	Indianapolis	IN	2.78	100.0	2.78
4.	Bridgeport	CT	3.90	70.0	2.73
5.	Philadelphia	PA	8.26	32.0	2.64
6.	Manchester	NH	\$ 2.64	100.0%	\$ 2.64
7.	Milwaukee	WI	2.63	96.8	2.54
8.	Baltimore	MD	2.46	100.0	2.46
9.	Newark	NJ	2.43	94.7	2.30
10.	Des Moines	IA	4.56	48.5	2.21
11.	Portland	ME	\$ 2.68	82.0%	\$ 2.20
12.	Omaha	NE	2.21	94.0	2.08
13.	Jacksonville	FL	2.02	98.0	1.98
14.	Fargo	ND	48.41	3.9	1.89
15.	Detroit	MI	6.71	27.8	1.86
16.	Columbia	SC	\$ 46.10	4.0%	\$ 1.84
17.	Chicago	IL	7.88	22.1	1.74
18.	New Orleans	LA	17.40	10.0	1.74
19.	Memphis	TN	7.27	23.8	1.73
20.	Boise	ID	1.78	97.3	1.73
21.	Atlanta	GA	\$ 4.29	40.0%	\$ 1.72
22.	Jackson	MS	17.09	10.0	1.71
23.	Anchorage	AK	1.63	100.0	1.63
24.	Sioux Falls	SD	1.84	85.0	1.56
25.	Billings	MT	1.94	80.0	1.55
26.	Burlington	VT	\$ 2.28	67.6%	\$ 1.54
27.	Salt Lake City	UT	1.53	99.0	1.51
28.	Columbus	OH	4.91	30.3	1.49
29.	Portland	OR	2.23	64.2	1.43
30.	Wilmington	DE	2.71	51.2	1.39
31.	Little Rock	AR	\$ 6.90	20.0%	\$ 1.38
32.	Phoenix	AZ	13.21	10.0	1.32
33.	Wichita	KS	11.43	11.5	1.31
34.	Minneapolis	MN	1.48	88.6	1.31
35.	Albuquerque	NM	3.80	33.3	1.27
36.	Los Angeles	CA	\$ 1.25	100.0%	\$ 1.25
37.	Boston	MA	1.23	100.0	1.23
38.	Oklahoma City	OK	10.91	11.0	1.20
39.	Kansas City	MO	6.30	19.0	1.20
40.	New York City	NY	14.46	8.0	1.16
41.	Charlotte	NC	\$ 1.18	95.8%	\$ 1.13
42.	Louisville	KY	1.23	90.0	1.10
43.	Las Vegas	NV	3.12	35.0	1.09
44.	Virginia Beach	VA	1.22	88.7	1.08
45.	Seattle	WA	1.09	94.1	1.03
46.	Washington	DC	\$ 0.96	100.0%	\$ 0.96
47.	Charleston	WV	1.47	60.0	0.88
48.	Birmingham	AL	6.95	10.0	0.70
49.	Cheyenne	WY	7.11	9.5	0.68
50.	Denver	CO	6.69	8.0	0.53
51.	Honolulu	HI	0.38	100.0	0.38
	Unweighted Average		\$ 6.29	59.3%	\$ 1.62
	Median				\$ 1.54

Source: District of Columbia Department of Revenue Analysis

Note that the data in Table 3 are totals for all property taxes, including commercial property taxes. For small, local businesses whose employees and sales are all in-state, this is not a problem because the burden of those business property taxes is all borne by in-state residents.

However, for large businesses with out-of-state employees and sales, a fraction of the burden is actually borne by residents of other states. For example, even though Microsoft remits significant property taxes to the local Redmond government in Washington, the entire tax bur-

Table 3
Property Tax Collections by State, Fiscal Year 2004

State	Property Tax Collections			Tax Per Capita		Tax as a Percentage of Income	
	State Government	Local Government	Total	Amount	Rank	Amount	Rank
U.S. Total	\$ 10,714,030,000	\$ 307,528,431,000	\$ 318,242,461,000	\$ 1,088.93	—	3.39%	—
Alabama	\$ 221,470,000	\$ 1,440,385,000	\$ 1,661,855,000	\$ 368.19	50	1.37%	50
Alaska	47,368,000	811,688,000	859,056,000	1,315.29	12	3.94%	12
Arizona	346,427,000	4,521,563,000	4,867,990,000	860.25	35	3.09%	27
Arkansas	520,324,000	580,614,000	1,100,938,000	402.08	49	1.60%	48
California	2,079,326,000	32,419,978,000	34,499,304,000	967.74	28	2.83%	35
Colorado	\$ 0	\$ 4,722,286,000	\$ 4,722,286,000	\$ 1,032.21	23	2.93%	32
Connecticut	0	6,801,676,000	6,801,676,000	1,947.55	3	4.45	7
Delaware	0	453,198,000	453,198,000	550.03	43	1.59	49
Florida	276,786,000	18,223,505,000	18,500,291,000	1,076.26	19	3.51	19
Georgia	65,118,000	7,779,708,000	7,844,826,000	888.18	33	3.05	29
Hawaii	\$ 0	\$ 720,798,000	\$ 720,798,000	\$ 574.27	42	1.83%	45
Idaho	0	1,084,470,000	1,084,470,000	784.92	36	3.02	30
Illinois	57,084,000	17,831,744,000	17,888,828,000	1,410.68	9	4.12	10
Indiana	8,923,000	6,064,615,000	6,073,538,000	977.80	26	3.31	21
Iowa	0	3,188,869,000	3,188,869,000	1,082.02	18	3.62	18
Kansas	\$ 57,554,000	\$ 3,189,062,000	\$ 3,246,616,000	\$ 1,189.69	14	3.93%	13
Kentucky	455,460,000	1,680,995,000	2,136,455,000	517.39	45	1.95	43
Louisiana	39,739,000	2,223,465,000	2,263,204,000	503.10	46	1.89	44
Maine	45,308,000	2,054,086,000	2,099,394,000	1,600.62	6	5.48	2
Maryland	478,796,000	5,539,833,000	6,018,629,000	1,087.00	17	2.83	34
Massachusetts	\$ 51,000	\$ 9,814,264,000	\$ 9,814,315,000	\$ 1,530.50	8	3.74%	15
Michigan	2,091,933,000	9,886,721,000	11,978,654,000	1,187.04	15	3.73	16
Minnesota	607,863,000	4,312,311,000	4,920,174,000	968.71	27	2.76	36
Mississippi	40,241,000	1,819,515,000	1,859,756,000	643.34	40	2.70	37
Missouri	22,763,000	4,281,624,000	4,304,387,000	750.01	37	2.52	39
Montana	\$ 183,937,000	\$ 774,842,000	\$ 958,779,000	\$ 1,039.44	20	3.87%	14
Nebraska	2,336,000	2,004,782,000	2,007,118,000	1,151.62	16	3.65	17
Nevada	132,468,000	2,014,826,000	2,147,294,000	938.79	30	2.87	33
New Hampshire	493,589,000	2,026,125,000	2,519,714,000	1,948.16	2	5.50	1
New Jersey	3,660,000	18,225,594,000	18,229,254,000	2,104.36	1	5.20	3
New Mexico	\$ 53,074,000	\$ 786,994,000	\$ 840,068,000	\$ 444.22	48	1.74%	46
New York	0	32,333,564,000	32,333,564,000	1,679.28	4	4.54	6
North Carolina	0	6,093,170,000	6,093,170,000	718.41	38	2.52	40
North Dakota	1,478,000	583,144,000	584,622,000	921.13	31	3.16	24
Ohio	40,636,000	11,192,192,000	11,232,828,000	981.81	25	3.23	23
Oklahoma	\$ 0	\$ 1,637,457,000	\$ 1,637,457,000	\$ 465.95	47	1.72%	47
Oregon	15,865,000	3,443,506,000	3,459,371,000	967.11	29	3.25	22
Pennsylvania	68,389,000	12,449,837,000	12,518,226,000	1,011.19	24	3.12	25
Rhode Island	1,532,000	1,757,602,000	1,759,134,000	1,632.12	5	4.91	5
South Carolina	11,597,000	3,692,822,000	3,704,419,000	887.86	34	3.35	20
South Dakota	\$ 0	\$ 705,183,000	\$ 705,183,000	\$ 918.67	32	3.09%	28
Tennessee	0	3,585,440,000	3,585,440,000	611.07	41	2.10	42
Texas	0	28,176,329,000	28,176,329,000	1,264.34	13	4.21	9
Utah	0	1,668,988,000	1,668,988,000	695.50	39	2.69	38
Vermont	448,203,000	502,253,000	950,456,000	1,532.59	7	4.96	4
Virginia	\$ 20,778,000	\$ 7,694,442,000	\$ 7,715,220,000	\$ 1,038.06	21	2.97%	31
Washington	1,526,617,000	4,859,729,000	6,386,346,000	1,035.22	22	3.10	26
West Virginia	3,370,000	975,664,000	979,034,000	540.47	44	2.16	41
Wisconsin	104,158,000	7,324,843,000	7,429,001,000	1,353.76	11	4.33	8
Wyoming	139,809,000	544,154,000	683,963,000	1,357.34	10	4.08	11
District of Columbia	\$ 1,027,976,000	\$ 0	\$ 1,027,976,000	\$ 1,848.74	—	3.76%	—

Note: Tax payments are actual collections as reported to the Census Bureau by state and local governments. Business and other property taxes included along with residential real estate taxes.

Sources: *Survey of Government Finances*, U.S. Census Bureau; Bureau of Economic Analysis; and Tax Foundation calculations.

den is not borne by local Washingtonians. In reality, part of the burden is borne by the shareholders of Microsoft throughout the world, and by its customers and workers all across the globe.

Sometimes, even residential real estate taxes can cause difficulty discerning what fraction of tax collections actually comes from outside the state. In Maine, for example, a significant amount of property is owned by out-of-staters. Therefore, the property tax collections reported by Maine, which ranks sixth highest per capita, are really larger than the property tax burden borne by Mainers.

County-Level Data

In many instances, people are curious to see property tax data that are more detailed than mere state-level aggregate property tax collection estimates. Usually, they would like to know which localities have the highest property tax bills. But the U.S. has over 54,000 local property-tax-levying jurisdictions, many overlapping such as fire districts, sewer districts, community college districts, etc., so local tax data can seem unmanageable.

However, there are national sources for local tax data such as the Census Bureau's *Sur-*

Table 4
Top 20 Counties in Real Estate Tax Burden, 2000

Rank	County	Average Taxes Paid as a % of Real Estate Value
1	Onondaga County, New York	2.77%
2	Montgomery County, New York	2.75%
3	Allegany County, New York	2.75%
4	Camden County, New Jersey	2.74%
5	Orleans County, New York	2.70%
6	Jackson County, South Dakota	2.69%
7	Niagara County, New York	2.65%
8	Hudson County, New Jersey	2.64%
9	Erie County, New York	2.58%
10	Schenectady County, New York	2.56%
11	Wayne County, New York	2.53%
12	Oneida County, New York	2.52%
13	Monroe County, New York	2.51%
14	Chenango County, New York	2.49%
15	Chautauqua County, New York	2.48%
16	Chemung County, New York	2.48%
17	Fulton County, New York	2.46%
18	Milwaukee County, Wisconsin	2.41%
19	Genesee County, New York	2.40%
20	Campbell County, South Dakota	2.40%

Note: Tax payments obtained by Census survey of owner-occupied housing in the 775 counties with populations above 65,000. Businesses, renters, and others are excluded. For the remaining counties, see www.taxfoundation.org/publications/show/1888.html. Source: 2005 American Community Survey, U.S. Census Bureau; and Tax Foundation calculations.

vey of Government Finances. Unfortunately, real estate tax collections are mixed with other property taxes. For example, nearly all of the

Table 5
Top 20 High-Population Counties in Median Real Estate Taxes Paid, 2005

Rank	County	Median Payment
1	Westchester County, NY	\$ 7,337
2	Nassau County, NY	\$ 7,025
3	Hunterdon County, NJ	\$ 6,988
4	Bergen County, NJ	\$ 6,846
5	Essex County, NJ	\$ 6,642
6	Rockland County, NY	\$ 6,527
7	Morris County, NJ	\$ 6,478
8	Somerset County, NJ	\$ 6,465
9	Putnam County, NY	\$ 6,335
10	Union County, NJ	\$ 6,312
11	Passaic County, NJ	\$ 6,210
12	Suffolk County, NY	\$ 6,131
13	Monmouth County, NJ	\$ 6,015
14	Hudson County, NJ	\$ 5,472
15	Lake County, IL	\$ 5,393
16	Sussex County, NJ	\$ 5,363
17	Fairfield County, CT	\$ 5,213
18	Middlesex County, NJ	\$ 4,954
19	Mercer County, NJ	\$ 4,926
20	Warren County, NJ	\$ 4,781

Note: Tax payments obtained by Census survey of owner-occupied housing in the 775 counties with populations above 65,000. Businesses, renters, and others are excluded. For the remaining counties, see www.taxfoundation.org/publications/show/1888.html. Source: 2005 American Community Survey, U.S. Census Bureau; and Tax Foundation calculations.

Table 6
Top 20 High-Population Counties in Real Estate Taxes as Percentage of Median Home Value, 2005

Rank	County	Median Real Estate Taxes Paid as % of Median Home Value
1	Niagara County, NY	2.81%
2	Monroe County, NY	2.73%
3	Onondaga County, NY	2.64%
4	Wayne County, NY	2.61%
5	Chautauqua County, NY	2.60%
6	Fort Bend County, TX	2.58%
7	Erie County, NY	2.55%
8	Schenectady County, NY	2.52%
9	Cayuga County, NY	2.44%
10	Chemung County, NY	2.42%
11	Tarrant County, TX	2.39%
12	Camden County, NJ	2.39%
13	Oswego County, NY	2.38%
14	Oneida County, NY	2.37%
15	Allegheny County, PA	2.35%
16	Williamson County, TX	2.34%
17	Salem County, NJ	2.34%
18	Broome County, NY	2.31%
19	Steuben County, NY	2.31%
20	Winnebago County, IL	2.31%

Note: Tax payments obtained by Census survey of owner-occupied housing in the 775 counties with populations above 65,000. Businesses, renters, and others are excluded. For the remaining counties, see www.taxfoundation.org/publications/show/1888.html. Source: 2005 American Community Survey, U.S. Census Bureau; and Tax Foundation calculations.

counties with the highest per capita tax burdens are in Texas and Alaska because special

taxes imposed on oil and gas fields are included in the property tax figure.

Table 7
Income Growth Versus Property Tax Growth 1990–2004

Fiscal Year	Percent Change in Personal Income	Percent Change in Property Tax Collections
1990	6.78%	9.28%
1991	4.94	7.96
1992	4.61	7.34
1993	5.32	5.22
1994	4.16	3.90
1995	5.86%	3.20%
1996	4.99	2.94
1997	6.18	4.48
1998	6.81	5.17
1999	6.27	4.14
2000	6.61%	3.97%
2001	6.22	5.82
2002	2.02	5.88
2003	2.19	6.27
2004	4.66	7.27

Note: Tax payments are actual collections as reported to the Census Bureau by state and local governments. Business and other property taxes included along with residential real estate taxes.

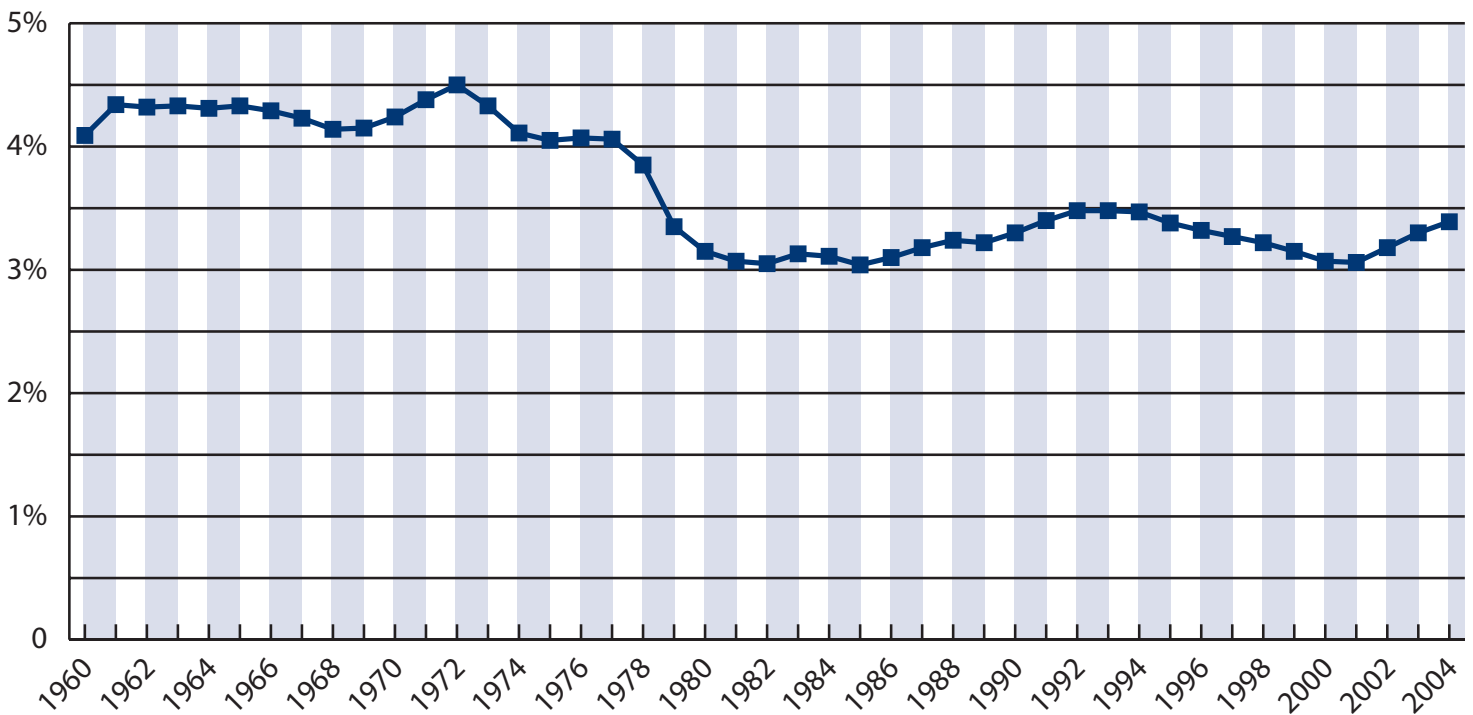
Sources: *Survey of Government Finances*, U.S. Census Bureau; Bureau of Economic Analysis; and Tax Foundation calculations.

Given these constraints, we have compiled two different data sources to show which counties face the highest residential real estate taxes in the country. First, we present 2000 Census data showing aggregate real estate taxes paid as a percentage of home values for the top 20 counties. We employ this dataset because in each decennial year, the Census Bureau includes all counties in the country, and also because it includes a sum of all specified owner-occupied housing values and real estate taxes. Only the median statistics are given for non-decennial years.

Then to give a more recent picture of property taxes, we present a second dataset from the 2005 American Community Survey (ACS), which reports the median real estate tax payments in high-population counties. (Note: The ACS is a survey that relies mainly on self-reporting.)

Table 4 shows the 20 counties in the U.S. where property taxes on real estate were the

Figure 1
Property Taxes As a Percentage of Personal Income, 1960–2004



Note: Tax payments are actual collections as reported to the Census Bureau by state and local governments. Business and other property taxes included along with residential real estate taxes.

Sources: *Survey of Government Finances*, U.S. Census Bureau; Bureau of Economic Analysis; and Tax Foundation calculations.

highest in 2000. The rate is computed by dividing the aggregate tax payment on owner-occupied housing by the aggregate value of the housing. Again, the benefit of this dataset is that it includes real estate taxes paid for all counties. The disadvantage is that in the intervening six years, a huge run-up in property values has taken place.

As Table 4 shows, these calculated real estate tax rates are highest in New York and New Jersey. From the 2000 American Community Survey, the average property tax bill on owner-occupied housing in Onondaga County, NY (where Syracuse is located) was 2.77 percent of the value of the specified owner-occupied housing, the highest among all counties in the country. Every other New York county listed in the table is in upstate New York and/or outside the New York City metro area. Also in the top five was Camden County (NJ), which is located just east of Philadelphia.

Table 5 shows data from the 2005 American Community Survey on real estate taxes paid on owner-occupied housing for counties with populations greater than 65,000. We look at both median real estate taxes paid by county in raw dollars and as a percentage of the median value of owner-occupied housing units in the country. By this measure, New Jersey and New York make up the bulk of the top counties.

In Table 6, on the other hand, the median real estate tax payment is put into proper perspective via a comparison with the median home value for the county, yielding the highest effective tax rates on real property.

Tables 5 and 6 are similar to the 2000 data in that New York and New Jersey top the lists in terms of heaviest real estate tax burdens. However, because New York and New Jersey counties do have higher home values than most other counties, when looking at the median taxes paid as a percentage of the median home value, New York and New Jersey's dominance among large counties fades somewhat, even though they still make up the top four counties. Note that some of the top counties from Table 4 for 2000, mostly in New York State, are not included in subsequent figures for 2005 because they did not have a population of at least 65,000. For upcoming American Community Surveys, however, the Census Bureau plans to expand the ACS by conducting two sets of surveys: (1) every year for counties with population greater than 65,000, and (2) all counties for three-year intervals.

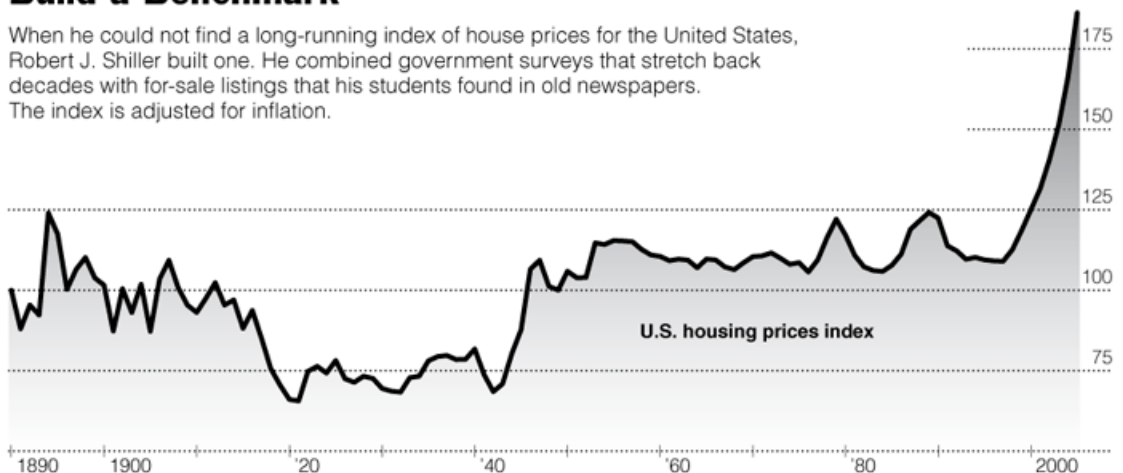
Recent Trends in Property Taxes

Property tax collections have grown faster than any other major tax source over the past five years. Table 7 and Figure 1 detail how prop-

Figure 2

Build-a-Benchmark

When he could not find a long-running index of house prices for the United States, Robert J. Shiller built one. He combined government surveys that stretch back decades with for-sale listings that his students found in old newspapers. The index is adjusted for inflation.



Source: "Irrational Exuberance," Robert J. Shiller

Source: <http://www.nytimes.com/imagepages/2005/08/21/business/21real.graphic.html>

erty tax levies have compared to the growth in personal income over recent time.

During the economic boom of the 1990s, personal income growth outpaced property tax growth in nearly every year. However, since the bursting of the stock market bubble in 2000 and the recession that followed, annual increases in property tax bills have far exceeded personal income growth. This is mostly due to the fact that while the rest of the economy struggled in the early part of the decade and personal incomes have grown modestly, housing prices have exploded (see Figure 2).

Overall, from 1992 to 2000, nominal personal income grew by 56.7 percent, outpacing the growth rate of property tax collections, which grew by only 38.2 percent. However, from 2000 to 2004, personal income grew 15.9 percent while property tax collections increased almost twice as rapidly, by 27.7 percent.

Throughout most of the 1990s, annual income growth exceeded property tax growth. But since 2001, annual property tax growth has outpaced income growth by rather large margins. The same trends appear when property taxes are tracked as a percentage of personal income (see Figure 1). Although property taxes have been higher in previous periods, in fiscal year 2004, property taxes as a percentage of personal income were at their highest level in ten years.

What Does a Housing Bubble Mean For Property Taxes?

There has been much discussion lately of the existence of a housing bubble. By looking at Figure 2, from a New York Times reprint of a chart in Robert Shiller's book *Irrational Exuberance*, one may be led to believe that homes are significantly overvalued and that we are currently seeing a market correction as home prices tumble across much of the United

States. Some analysts have predicted that lower home prices could continue for quite some time. If so, there could be massive repercussions for local governments, especially school districts that rely heavily on property taxes.

If property values were to continue to fall in some jurisdictions, there would likely be a combination of three policies taken by local governments, most specifically school districts: (1) raise the tax rates in order to achieve desired level of revenue, (2) cut spending, and/or (3) request funds from higher levels of government.

But the mere possibility of property values dropping suddenly, and property tax revenues with them, should serve as a warning to local governments that grim budget days may lie ahead. Hopefully, local governments have not become overly dependent on revenue streams that are unlikely to continue increasing, at least not at the same rate. That is, government planning should account for this risk to future revenues.

Conclusion

Overall, despite being one of the least popular taxes, property tax collections have taken off in recent years. This has resulted first of all from the rapid increase in residential home prices, and secondly from the choice of local government officials to continue levying the same or similar tax rates, instead of rapidly lowering the rate to account for the surge in the value of real property.

In the past five years, the increase in property tax collections has been nearly double the growth in personal income. What the future has in store for property taxes will largely be a function of housing prices, but local governments can stem the rising tax bills in the process by lowering rates, and not merely spending the windfall revenue.



SPECIAL REPORT
(ISSN 1068-0306) is published at least 6 times yearly by the Tax Foundation, an independent 501(c)(3) organization chartered in the District of Columbia.

4–20 pp.
Single copy: free
Multiple copies: \$5 each

The Tax Foundation, a nonprofit, nonpartisan research and public education organization, has monitored tax and fiscal activities at all levels of government since 1937.

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