



Property Tax Caps Would Provide Relief

Previously, the Platte Institute discussed why increasing state aid to local governments in an effort to provide property tax relief was the wrong way to go. Evidence from other states indicates increased state aid does not reduce property taxes, and may actually lead to higher taxation generally. Such a policy also makes localities more dependent on the state government and vulnerable to state level budget changes and tax policy.[1] While the best course of action to control property taxes is for local entities to reduce spending, the state may also take other measures to control property taxes, especially in the way of property tax caps.

Since 1966, property taxes have only been legal at the local level in Nebraska, and an individual's "real property" tax bill is based upon the "assessed" or market value of the land, structures on the land, and fixtures attached to the structures on the land the individual owns.[2] Most property is taxed at 100 percent of the market value; however, agricultural land is taxed at 75 percent of the market value. Government property, when used for public purposes, is exempt, as is property owned by non-profits or used for "cemetery, educational, religious, or charitable purposes." [3] There is also a tangible personal property (TPP) tax based on property that can be touched and moved. This applies only to businesses, and imposes significant compliance costs despite bringing in an insignificant amount of revenue, accounting for only 5.6 percent of local tax revenue in 2009.[4]

When compared to other states, Nebraska's property taxes are very high. According to the Tax Foundation, when the mean property taxes on owner-occupied housing are evaluated as a percentage of the mean home value, Nebraska's property tax rate is approximately 1.72 percent, 6th highest in the nation and higher than all of our neighboring states.[5] When evaluated as property tax collections per capita, Nebraska collected approximately \$1,487 in property tax for every single person in the state, the 16th highest per capita collection nationally and higher than all of our neighboring states, except for Wyoming.[6]

Nebraska currently has two programs for property tax relief: the Homestead Exemption Act and the Property Tax Credit Relief Act. The homestead exemption applies to individuals who are over 65, qualified disabled, or qualified totally disabled veterans and their widow(ers), and allows them to exempt portions of their property from the taxable value. The exemption has income limits, so as income increases the exemption amount decreases.[7] The state reimburses local governments for revenue lost due to the exemption.[8] The property tax credit was created in 2007 and is available to all property owners, providing \$83.22 in credits for every \$100,000 of taxable property. Like the homestead credit, the state refunds money local governments lost due to the credit. Since 2008, \$115 million has been appropriated

to fund the credit.[9]

The credits from the state to local governments are counterintuitive; it provides little actual relief and it shifts the burden to other state taxes, specifically income and sales taxes. As we noted in our recent study, “Building on Success: A Guide to Fair, Simple, Pro-Growth Tax Reform for Nebraska,” released in conjunction with the Tax Foundation, aside from cutting spending, the best way to provide property tax relief would be to enact property tax caps. The study proposed three types of caps:

- **Imposing a maximum tax rate:**[10] This would prevent localities from increasing property tax rates above a certain amount, and the statute could require a popular vote for any increases above the maximum rate. This latter requirement is already in place for local sales tax increases above 1.5 percent and for the imposition local occupation taxes. However, this cap on rates would need to be accompanied by a cap on increases in the assessed value or localities could circumvent the rate restriction by increasing assessment values. This cap may not limit the growth of property tax revenue, but it would keep the rate stable.
- **Limiting tax levy growth rate:**[11] Limiting the tax levy growth rate would control the amount of revenue growth over time. Legislation could dictate what acceptable growth rates are and require a popular vote in order to override or receive any exemptions from the limit. Separate research by the Manhattan Institute and Tax Foundation on Massachusetts and California, respectively, has shown these limits tend to be the most effective in restraining tax growth while still allowing localities flexibility when voters support revenue increases.
- **Limiting assessed property value growth:**[12] Placing a cap on the yearly growth of assessed property value would protect property owners from huge jumps in their property valuations from year to year, although it would have to be accompanied by a rate cap to ensure that the rates are not arbitrarily increased even while assessed value remains stagnant. California has used this limit as part of its Proposition 13 to help control property taxes.

These are just a few possible options that could be used for restraining property taxes to acceptable levels. Of course, the best option still would be for local governments to cut spending to allow for tax reductions as a whole.

[1] “More State Aid Will Not Alleviate Property Taxes.” Platte Institute for Economic Research. October 16, 2013. Accessed November 12, 2013. <http://www.platteinstitute.org/research/detail/more-state-aid-will-not-alleviate-property-taxes>

[2] Nebraska Legislature, “Property Taxes,” Taxes in Nebraska. Accessed October 8, 2013, http://www.legislature.ne.gov/app_rev/source/proptax.htm.

[3] Ibid.

[4] Joseph Henchman & Scott Drenkard, “Building on Success: A Guide to Fair, Simple, Pro-Growth Tax Reform for Nebraska,” Platte Institute for Economic Research October 2013. Accessed October 8, 2013, http://www.platteinstitute.org/Library/docLib/20131002_Building_on_Success_Final_Low_Res.pdf.

[5] Tax Foundation, "Facts & Figures: How Does Your State Compare?," Table 31 (2013), <http://taxfoundation.org/sites/taxfoundation.org/files/docs/ff2013.pdf>.

[6] Tax Foundation, "Nebraska." Accessed October 8, 2013, <http://taxfoundation.org/state-tax-climate/nebraska>; Tax Foundation, "State and Local Property Tax Collections Per Capita by State, 2006-2010," September 13, 2013. Accessed October 8, 2013, <http://taxfoundation.org/article/state-and-local-property-tax-collections-capita-state-2006-2010>.

[7] Nebraska Department of Revenue, "Nebraska Homestead Exemption," January 2013. Accessed October 11, 2013, <http://www.revenue.ne.gov/info/96-299.pdf>.

[8] Nebraska Administrative Code, "REG-45-001 Nature of the Homestead Exemption." Accessed October 11, 2013, http://www.revenue.ne.gov/PAD/legal/regs/45-Homestead_Exemption.html#001.

[9] Ruth A. Sorenson, "Nebraska Department of Revenue Property Assessment Division 2012 Annual Report," Nebraska Department of Revenue. Accessed October 11, 2013, http://www.revenue.ne.gov/PAD/research/annual_reports/2012/NE_RevenuePAD_annrpt2012_fullbook.pdf.

[10] Associated Press, "Nebraska lawmakers reject attempted repeal of sales tax law," *Kearney Hub*, May 21, 2013. Accessed October 11, 2013. http://www.kearneyhub.com/news/local/nebraska-lawmakers-reject-attempted-repeal-of-sales-tax-law/article_a24973a8-c238-11e2-a741-0019bb2963f4.html; Nebraska Legislature, "Legislative Bill 745," April 18, 2012. Accessed October 11, 2013, http://nebraskalegislature.gov/bills/view_bill.php?DocumentID=15609.

[11] Josh Barro, *Do Property Tax Caps Work? Lessons for New Jersey from Massachusetts*, Manhattan Institute for Policy Research (May 2010), http://manhattan-institute.org/html/cr_62.htm; Noah Glyn & Scott Drenkard, *Prop. 13 in California, 35 Years Later*, Tax Foundation Tax Policy Blog (Jun. 6, 2013), <http://taxfoundation.org/blog/prop-13-california-35-years-later>.

[12] Joseph Henchman & Scott Drenkard, "Building on Success: A Guide to Fair, Simple, Pro-Growth Tax Reform for Nebraska," Platte Institute for Economic Research. October 2013. Accessed October 8, 2013, http://www.platteinstitute.org/Library/docLib/20131002_Building_on_Success_Final_Low_Res.pdf.



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