

## Property Tax Assessment Limits: Lessons from Thirty Years of Experience

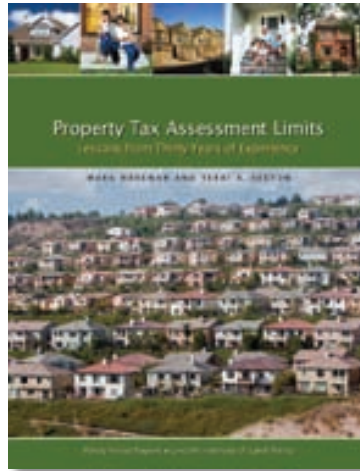
During the 30 years since California adopted the groundbreaking tax limitation measure known as Proposition 13 in 1978, pressure has persisted for states to adopt various forms of property tax relief. These pressures often intensify during times of extremely rapid housing price inflation such as many states experienced between 1998 and 2006, but they remain a constant feature of the fiscal landscape in periods of both rising and declining values. The anniversary year of Proposition 13 in 2008 provides an opportunity to evaluate various states' experiences with a limitation on assessed property values, which has become one of the most popular instruments for tax reduction.

The evidence shows, however, that limits on assessed values, while favored by many homeowners, are a deeply flawed remedy to counter rising property taxes. They are offered in hope of reducing tax bills and slowing the shift in tax burdens to residential property, but in fact they can result in higher taxes on the very homeowners they are intended to assist and can cause unpredictable new shifts in tax liabilities.

By severing the connection between property values and property taxes, assessment limits impose widely differing tax obligations on owners of identical property, reduce economic growth by distorting taxpayer decision making, and greatly reduce the transparency and accountability of the property tax system as a whole.

Better alternatives exist for timely and efficient aid to needy taxpayers.

- Circuit breaker programs reduce taxes that rise above a given level of income, thus targeting assistance to those whose tax liabilities are out of proportion to their ability to pay.
- Truth in taxation measures lower the likelihood of invisible tax increases when property values rise but nominal tax rates stay the same.



### Property Tax Assessment Limits: Lessons from Thirty Years of Experience

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- Deferral options allow qualified taxpayers to delay property tax payments and remain in their homes.
- Partial exemptions on owner-occupied or homestead properties and classified tax rates benefit residential taxpayers without distorting the market value tax base.

Fashioning timely and targeted relief for those facing difficulty in meeting their property tax obligations is an ever-present challenge to state legislators. As economic conditions, demographic trends, and housing values change, so will the appropriate instruments for extending such aid. This report is designed to inform this process by identifying the lessons offered by three decades of experience with assessment limits as a vehicle for tax relief.

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