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## State Property Tax Debates Heating Up

by [Tonya Barr](#)*(The following article originally appeared in the [January 2008 edition of the Heartland Institute's Budget & Tax News](#)).*

With the recent rise in home values and property tax bills across the country, the property tax debate has heated up in several states.

According to a 2006 Tax Foundation poll, property taxes are the form of state and local taxation most loathed by the public. Current property tax discontent is reminiscent of the late 1970s and early 1980s, when property tax caps, including California's Proposition 13 and similar measures, were debated and passed in many states.

### Three States Take Lead

Three states--Florida, Georgia, and Indiana--are leading the current push for some version of property tax reform.

Some lawmakers, including Indiana Gov. Mitch Daniels (R), are offering plans that would shift revenue collection from localities to state governments, thus moving the government entity that controls tax rates (and spending) farther from the people.

Daniels and his Commission on State Tax and Financing Policy are looking at both short- and long-term fixes to the state's property tax dilemma. Their plan, released in late October, would cap the residential property tax at 1 percent of assessed value and business properties at 3 percent by 2009. The plan also adds a homestead deduction of 35 percent in 2009, shifts some school costs to the state, and replaces elected township and county assessors with an appointed assessor in each county.

Although Daniels' plan would limit growth in local spending in accordance with a county's average personal income over a six-year period, it would also raise the state's sales tax from 6 to 7 percent.

House Speaker Pat Bauer (D-South Bend) worries an increase in the sales tax may hurt middle-income families and the poor. He told Indianapolis News 6 TV, "The big question whenever you increase a tax like sales tax is who wins and who loses." Nonetheless, Democrats in the state appear cautiously supportive of Daniels' plan.

### Some Want Tax Abolished

Some policy advocates are going further than Daniels, calling for outright abolition of Indiana's property tax. Daniels has said he will not support eliminating property taxes because doing so would necessitate a large increase in income taxes.

Gerald Prante, an economist at the Tax Foundation, says eliminating the property tax

would endanger the state's fiscal health. "While abolishing the property tax may sound good, if you want to reduce taxes you have to reduce spending," Prante said. "Unless spending is cut, eliminating the property tax will merely shift the tax burden onto some other tax, which may be worse than the property tax."

Prante added, "Furthermore, eliminating the property tax, which is relied upon by local governments, will transfer power to the state government on the issue of taxation, thereby reducing or even eliminating tax competition within the state, as well as reducing the chances that one's voice will be effective in changing tax policy."

### **Georgia May Dismantle Tax**

Georgia, too, is considering legislation to dismantle the property tax system in the state.

Glenn Richardson (R-Hiram), speaker of the House, has proposed the GREAT (Georgia's Repeal of Every Ad Valorem Tax) Plan, a constitutional amendment under which property taxes would be replaced by extending the current 4 percent sales tax to services and by eliminating all sales tax exemptions.

The plan is projected to generate the same amount of revenue as the property tax, but the revenue would be remitted to the state and not directly to local governments. Richardson notes on the GREAT Plan's Web site, "It is not our intent to cut taxes, but rather, to reform the system of taxation in Georgia."

Because the plan is proposed as a constitutional amendment, it requires a two-thirds vote of the General Assembly and approval by the state's voters in a ballot measure.

Local officials *have opposed the plan*. "*Decisions should be made at home, not at the Dome,*" Dr. Steve Smith, Lowndes County Schools superintendent, told the Valdosta Daily Times. "The state will be the financial winner and the local government will be the loser because the power will be given to Atlanta," he warned.

### **Florida Voters Have Say**

In late October, Florida lawmakers passed a reform plan that will be on the January ballot for voters to approve.

The measure would double the \$25,000 homestead exemption to \$50,000, allow more portability of tax cap savings under the Save Our Homes initiative, and impose a 10 percent cap on assessments for non-homestead property. The plan is expected to save the average homeowner about \$240 a year.

A proposal that would have eliminated property tax payments for lower-income senior citizens was dropped from the final plan by the Senate. Because Florida does not have an income tax, revenue at the state level may be made up by a sales tax increase, unless there is a decrease in spending.

Florida Tax Watch, a nonpartisan research group, said the plan does not cut taxes and therefore is not "true tax reform." In a statement on its Web site, the group notes, "heaping savings on homesteaders may naturally disincentive them from participating to try to keep local government spending under control."

Policy analysts largely agree that when control of taxation and spending is shifted from localities to the state, localities have less influence. To cut property taxes effectively, spending must be curbed as well, they say. Otherwise, the revenue is likely to be recouped through another form of taxation, and likely one that is not as visible to voters.