A Review of the Georgia Property Tax
About the Property Tax

• Types of governments that rely on it
• Classifications of property
• Who bears the burden of the property tax
• Exemptions and property tax relief
## Property Tax Levies by Type of Government (GA)

Source: Georgia Department of Revenue, Tax Digest Consolidated Summary

<table>
<thead>
<tr>
<th>Type of Government</th>
<th>Share</th>
<th>1996</th>
<th>2007</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>State</td>
<td>0.9%</td>
<td>0.8%</td>
<td>0.3%</td>
<td></td>
</tr>
<tr>
<td>School Systems</td>
<td>58%</td>
<td>57%</td>
<td>55%</td>
<td></td>
</tr>
<tr>
<td>Counties</td>
<td>27%</td>
<td>26%</td>
<td>29%</td>
<td></td>
</tr>
<tr>
<td>Municipalities</td>
<td>8%</td>
<td>7%</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>Special Districts</td>
<td>6%</td>
<td>9%</td>
<td>7%</td>
<td></td>
</tr>
</tbody>
</table>
Classification of Property in Georgia

• Different types of property
  – Residential
  – Commercial (including apartments)
  – Industrial, agriculture, forestry and mining
  – Utility and railroad
  – Conservation, brownfields and historical
## Georgia Gross State Property Tax Base by Components (billions 2014 dollars)

Source: Georgia Department of Revenue, Tax Digest Consolidated Summary

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>$102.2</td>
<td>43%</td>
<td>$237.5</td>
<td>55%</td>
<td>$190.9</td>
<td>52%</td>
<td>$182.8</td>
<td>51%</td>
</tr>
<tr>
<td>Agricultural</td>
<td>$10.7</td>
<td>5%</td>
<td>$15.4</td>
<td>4%</td>
<td>$11.7</td>
<td>3%</td>
<td>$24.6</td>
<td>7%</td>
</tr>
<tr>
<td>Conservation Use</td>
<td>$2.3</td>
<td>1%</td>
<td>$13.2</td>
<td>3%</td>
<td>$14.2</td>
<td>4%</td>
<td>$0.0</td>
<td>0%</td>
</tr>
<tr>
<td>Commercial</td>
<td>$58.5</td>
<td>25%</td>
<td>$96.2</td>
<td>22%</td>
<td>$91.7</td>
<td>24%</td>
<td>$89.0</td>
<td>25%</td>
</tr>
<tr>
<td>Industrial</td>
<td>$23.0</td>
<td>10%</td>
<td>$27.3</td>
<td>6%</td>
<td>$24.6</td>
<td>7%</td>
<td>$24.8</td>
<td>7%</td>
</tr>
<tr>
<td>Utility</td>
<td>$14.7</td>
<td>6%</td>
<td>$13.9</td>
<td>3%</td>
<td>$13.5</td>
<td>4%</td>
<td>$14.4</td>
<td>4%</td>
</tr>
<tr>
<td>Motor Vehicle</td>
<td>$22.0</td>
<td>9%</td>
<td>$26.1</td>
<td>6%</td>
<td>$22.8</td>
<td>6%</td>
<td>$20.6</td>
<td>6%</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>$2.9</td>
<td>1%</td>
<td>$3.4</td>
<td>1%</td>
<td>$10.2</td>
<td>3%</td>
<td>$1.6</td>
<td>0%</td>
</tr>
<tr>
<td>Total Gross Digest</td>
<td>$236.4</td>
<td></td>
<td>$433.1</td>
<td></td>
<td>$379.6</td>
<td></td>
<td>$357.7</td>
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</table>
Who Bears the Burden of the Property Tax?

- Is it a benefit tax?
- Is it a tax on capital?
- Is it regressive or progressive?
A Benefits Tax?

• One view is that property tax resembles a “user fee” for public goods and services.
• Based on the assumption that the market properly reflects the value of these goods and services in property values – capitalization.
• Tiebout sorting.
A Tax on Capital?

- Alternative view is that the local property taxes form a “national network” of taxes on capital.
- Deviations in this national average tax are caused by high-tax and low-tax jurisdictions.
- Commercial property has incentive to locate in lower tax jurisdictions.
- Can result in underfunding of government services – “Race to the Bottom.”
Is it Regressive or Progressive?

• Based on benefit view, property tax is a tax on housing
• Given that lower-income individuals spend a larger portion of their income on housing compared to higher-income individuals, the tax is regressive
• Based on the capital taxation view, this is a tax on capital
• Given that higher-income individuals hold larger amounts of capital than lower-income individuals, this is a progressive tax
Consensus? Not Yet!

- A consensus among economists has not been reached
- The benefit model has more empirical support among urban and suburban jurisdictions
- The capital model fits better the location of commercial and nonresidential property
Property Tax Relief

• Increases in land value does not equate to increases in income – “house rich,” “cash poor”

• Occurs for some classes of property and some types of taxpayers
  – Senior citizens, low-income, vets and law enforcement officers/firefighters
  – Property tax has significantly increased in value
  – Special valuations for agriculture or conservation property
Property Tax Relief Mechanisms

• Freeze assessments or limit annual increases in assessments
• Limits on tax rates
• Limits on reliance of property tax
• Homestead exemptions
• Truth in Taxation program
• Tax deferral
• Tax credits and circuit breakers
• Consumption taxes as alternative revenue source
Homestead Exemptions

• Deduction from assessed value
• Must own and occupy the house
• Locally financed
• Special exemptions for certain types of homeowners, typically for elderly and low-income home owners
• Adds progressivity to the property tax burden on owner-occupied housing
## Homestead Example

<table>
<thead>
<tr>
<th></th>
<th>$100,000</th>
<th>$200,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>FMV Value</td>
<td>$100,000</td>
<td>$200,000</td>
</tr>
<tr>
<td>Assessed Value</td>
<td>$40,000</td>
<td>$80,000</td>
</tr>
<tr>
<td>Homestead</td>
<td>$10,000</td>
<td>$10,000</td>
</tr>
<tr>
<td>Taxable Value</td>
<td>$30,000</td>
<td>$70,000</td>
</tr>
<tr>
<td>Tax at 20 mils</td>
<td>$600</td>
<td>$1400</td>
</tr>
<tr>
<td>Effective tax rate</td>
<td>0.6%</td>
<td>0.7%</td>
</tr>
</tbody>
</table>
# Homestead vs State Tax Credit

<table>
<thead>
<tr>
<th></th>
<th>Credit</th>
<th>Additional $8,000 Homestead Exemption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assess value</td>
<td>$40,000</td>
<td>$40,000</td>
</tr>
<tr>
<td>Deduct homestead exemption</td>
<td>($10,000)</td>
<td>($10,000)</td>
</tr>
<tr>
<td>Taxable value</td>
<td>$30,000</td>
<td>$30,000</td>
</tr>
<tr>
<td>Additional homestead exemption</td>
<td>0</td>
<td>($8,000)</td>
</tr>
<tr>
<td>Taxable value</td>
<td>$30,000</td>
<td>$22,000</td>
</tr>
<tr>
<td>Tax at 2%</td>
<td>$600</td>
<td>$440</td>
</tr>
<tr>
<td>Deduct HTR Credit (=2% of $8,000)</td>
<td>($160)</td>
<td>0</td>
</tr>
<tr>
<td>Net Tax Liability</td>
<td>$440</td>
<td>$440</td>
</tr>
</tbody>
</table>
Circuit Breakers: Maine as of 2015

- No age limit, refundable state income tax credit
- Relieves 50% of property tax above 6% of income
- Credit starts to phase out at: $33k for one person, $43k for 2 and $53k for 3+
- Maximum relief: $600 under 65 and $900 if 65 +
- Assumes property tax on rental property = 20% of rent
- Note the original Maine circuit breaker was more generous; it was replaced in 2013 with the Property Tax Fairness Credit, which has been modified in subsequent years

Source: datatoolkits.lincolninst.edu/subcenters/significant-features-property-tax/Report_Residential_Property_Tax_Relief_Programs.aspx and http://www.mejp.org/content/property-tax-fairness-credit-will-help-more-people
Assessment Cap: Cook County 2004

- Assessment Cap of 7% (but there were limits)
- Provided relief to 75% of eligible home owners
- Benefits accrued primarily to low- and mid-value home owners due to cap structure: total benefits $128M
- Loss of residential tax revenue was made up by other types of property: for instance ineligible residential and apartment owners paid $44 million more
- Due to declining tax base rates often increased
- Seniors with frozen values suffered higher taxes due to rate increases

  Source: Property Tax Assessment Limits, Lessons from Thirty Years of Experience, Haveman and Sexton, Lincoln Institute of Land Policy
Truth in Taxation Program

• Require some type of hearing, notification or vote if assessments rise and rates are not rolled back so that collections remain the same as prior year

• Several states utilize these programs: Virginia, Tennessee, Utah and Maryland

• Study of Utah found full disclosure law helped stabilize rates (Cornia and Walters 2006)
## Georgia State Property Tax Relief

<table>
<thead>
<tr>
<th>Type of Benefit</th>
<th>Eligible</th>
<th>Program Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assess. Freeze</td>
<td>Elderly</td>
<td>Inflation-Proof Exemption</td>
</tr>
<tr>
<td>Assess. Freeze, Exemption</td>
<td>All Homeowners</td>
<td>Local Option Homestead Exemption</td>
</tr>
<tr>
<td>Credit</td>
<td>All Homeowners</td>
<td>Property Tax Credit</td>
</tr>
<tr>
<td>Deferral Exemption</td>
<td>Elderly/Low Inc.</td>
<td>Property Tax Deferral</td>
</tr>
<tr>
<td>Exemption</td>
<td>All Homeowners</td>
<td>General Homestead Exemption</td>
</tr>
<tr>
<td>Exemption</td>
<td>Elderly</td>
<td>Homestead Exemption</td>
</tr>
<tr>
<td>Exemption</td>
<td>Elderly</td>
<td>School Property Tax Exemption</td>
</tr>
<tr>
<td>Exemption</td>
<td>Elderly</td>
<td>State Homestead Exemption</td>
</tr>
<tr>
<td>Exemption</td>
<td>Vets and Spouses</td>
<td>Homestead Exemption for Disabled Veterans</td>
</tr>
<tr>
<td>Exemption</td>
<td>Vets and Spouses</td>
<td>Homestead Exemption for Unremarried Spouses of Servicemen Killed in Action</td>
</tr>
<tr>
<td>Exemption</td>
<td>Vets and Spouses</td>
<td>Homestead Exemption for Unremarried Spouses of Peace Officers and Firefighters Killed in Line of Duty</td>
</tr>
</tbody>
</table>

Georgia State Property Tax Relief

- County school systems rate limit of 20 mills
- Can be overridden with local voter approval
- Independent school systems are not subject to the rate limit
- In 2007, 29 of the 159 county school systems in Georgia had a property tax rate of 18 mills or more

  - Source: http://cszf.gsu.edu/files/2014/06/property_tax_limitations.pdf
Consequences of Relief Programs

• Higher rates on business property creates economic distortions and may affect location decisions
• Creates inequities between taxpayers as some properties are taxed more than others for the same services
• Contributes to urban sprawl
• Breaks the connection between taxes paid and benefits received
Conclusion

• School districts primary beneficiaries of property tax
• Georgia has placed some limitations on property tax but not generally over burdensome for local governments
• Local governments should proceed cautiously when offering property tax relief
Thank You!

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