

Property Tax Knowledge and Attitudes

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In this edition of *State Fiscal Affairs*, the authors look at Californians' understanding of and attitudes toward property taxes.

Property taxes remain a dominant revenue source for local governments. The \$473 billion collected in 2015 provided 30 percent of local government general revenue (second only to state aid, which goes mostly to school districts). Yet as Fisher has noted, "Despite its fiscal importance, the property tax is perhaps the most confusing and least understood of local fiscal institutions."¹ As a result, surveys show consistently that property taxes often are perceived as unfair and are the relatively most disliked tax.

Because of its unique history with the tax, California is perhaps the most interesting place to explore knowledge, attitudes, and support concerning property taxation. Proposition 13,

adopted in 1978 with nearly two-thirds support of California voters, decreased the amount of property taxes paid on residential and business property by limiting the effective rate and changed the property tax assessment process. Of course, at least 19 other states plus the District of Columbia followed California in adopting limits on property tax amounts and growth.

So what do voters know and believe about property taxes? A series of questions we offered in a December 2016 CalSpeaks survey (administered through a generous grant from the Institute for Social Research at California State University, Sacramento) provides information to better understand citizens' knowledge and attitudes about property taxes and Proposition 13 in California.

The fundamental elements of Proposition 13 are stated simply: The local property tax rate is limited to no more than 1 percent of assessed value, and assessed value is defined to be the market value in 1975 plus a maximum annual 2 percent increase for inflation. When sold, a property is reassessed at the current market value, establishing a new base year, and any newly constructed portions of a property are assessed at current value.

The Lincoln Institute's Significant Features of the Property Tax,² an online database of property tax in all 50 states, summarizes the effect of Proposition 13 as follows: "Although local governments lost control over their most important revenue source, California voters benefit from the certainty of knowing that the tax on their property is 1 percent of the purchase price plus a maximum of 2 percent increase per year."

¹Ronald C. Fisher, *State and Local Public Finance*, Routledge, 2016, p. 300.

²Adam H. Langley, "Significant Features of the Property Tax," Lincoln Institute of Land Policy (undated).

Table 1. Questions Concerning Understanding of Property Taxes

Question	Possible Responses	Survey Percentage Choices	Weighted (to represent all California) Correct Percentage Choice	90% Confidence Interval
<i>Do property tax rates applied to a property's value (to determine the amount owed annually) vary by where someone lives in California?</i>	Yes	80.09%		17.2 to 24.9%
	No	19.91%	20.6%	
<i>What is the annual percentage rate that property is taxed in all of California? (Among those that believe rate is constant.)</i>	0.5 percent	11.33%	59.2%	49.2% to 69.2%
	1 percent	57.14%		
	3 percent	20.69%		
	5 percent	10.84%		
<i>Which of the following determines the amount of property tax that a California homeowner pays?</i>	Purchase price of home and number years owned	56.02%	60.69%	56.2% to 65.4%
	Current price at which owner could sell home	40.58%		
	Number of people living in home	3.41%		

Do Californians Understand Property Taxes?

Three survey questions were designed to evaluate residents' understanding of Proposition 13 and the property tax process in California. The responses, shown in Table 1, imply that many California residents have an incomplete understanding of the property tax process in California under Proposition 13.

First, a large fraction of Californians (about 80 percent) believe that property tax rates vary geographically, although setting a 1 percent rate is fundamental to Proposition 13.³ Even among those who believe that the rate does not vary geographically, only about 60 percent (with a 90 percent confidence interval from 49 to 69 percent) accurately identified that rate at 1 percent of taxable value.

However, a majority does seem to understand the basics of the "acquisition value" assessment process, including that property tax liability depends on the length of ownership of a property

because of reassessment upon sale. About 61 percent (56 to 65 percent confidence interval) of Californians believe that "the purchase price of the home and the number of years owned" determine taxable value and ultimately the amount of property tax liability. However, a substantial number still believe, contrary to Proposition 13, that taxable value and tax amount are based on "the current price at which the owner could sell the home," that is, market value.

It is not clear why this confusion about the property tax process persists. It has been nearly 40 years since Proposition 13 was first debated and discussed extensively, and many current taxpayers may not have been property owners at that time or even California residents. Yet all current taxpayers pay the tax every year and have gone through the process of acquiring taxable property. Property taxes — with an estimated tax base and rates set by multiple local governments — inherently seem confusing.

³One complicating factor is that voters can approve higher rates for local government debt service, although these tend to be relatively small in most cases.

Table 2. Questions Concerning Support for Property Taxes

Question	Possible Responses	Survey Percentage Choices	Weighted (to represent all California) Property Tax Percentage Choice	90% Confidence Interval
<i>If the appropriate local government raises local revenue to improve any of the inadequate services(s) just named, would you prefer it come through</i>	Higher rate of local sales taxation	28.9%	15.2%	11.5 to 19%
	Higher fees charged on residents/businesses who use the increased service	42.2%		
	A new local tax on income	15.3%		
	More dollars raised through local property taxation	14.6%		
<i>If your local city or county government found an expected shortage of tax dollars equivalent to \$500 per household in your community, which meant that they could no longer fund the level of local government services you desire with given tax revenue, what form of local tax/revenue raising would you most like to see increased to makeup this needed revenue?</i>	Property taxation	15%	15.8%	12 to 19.5%
	Sales taxation	31.6%		
	Fees charged to residents who use a specific local service	35.4%		
	Fees charged to conduct business in your locality	18%		

Do Californians Support Property Taxes?

The simple, and perhaps surprising, answer to this question is no. Two survey questions, identified in Table 2, asked how best to accomplish desired or necessary revenue changes. In both cases, property taxation came in last.

For increasing revenue, either to increase spending on services or to offset a budget deficit, respondents preferred fees, sales taxes, and even income taxes to more property taxation. In both cases, only about 15 percent of survey participants selected property taxation as the preferred mechanism to generate additional revenue.

To generate revenue to fund services that respondents identified as “inadequate,” survey participants overwhelmingly preferred fees, followed by increased local sales taxes. A higher property tax was the least preferred option, with even a new local income tax more preferred slightly. To generate revenue to offset an impending budget deficit, which would otherwise require a decrease in spending on

public services, survey participants most preferred fees charged to users of a service, followed closely by increased sales taxation. Fees collected from businesses, including fees for operating in a locality, also were preferred to additional property taxation.

Because of the effects of Proposition 13, California’s reliance on and level of property taxation is relatively low despite having very high average property values. The overall effective property tax rate in California is 35th among the states, and California ranks 23rd in per capita property tax and 29th in property tax as a percentage of personal income. In terms of revenue reliance, California ranks 31st in property tax as a percentage of total state-local revenue.

Therefore, with property taxes relatively low, it is especially interesting that California residents prefer essentially every other revenue source — fees, sales taxes, and income taxes — to increased property taxes. Discussions to revise Proposition 13 regarding both the tax rate limit and the

assessment process have occurred regularly, yet no proposal has gained substantial support.

Perhaps it is the lack of accurate understanding about the tax — especially that the tax rate is limited to 1 percent — that causes citizens to have a preference against the property tax. Perhaps beliefs about the income incidence of the property tax (that it favors low-income or high-income individuals) affect the reluctance to use the property tax compared with other revenue options. Or perhaps taxpayers prefer to tie a revenue source to a particular public service, which might contribute to a preference for fees. All are issues for further research. Whatever the explanation, California taxpayers continue to dislike property taxes. ■

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