

# **Agenda Item 2 - Current State of Property Tax Administration: Perspectives**

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Commission Property Tax Policy Bureau Chief**

# **Best Practices in Property Tax Administration**

**Perspectives from U.S. States and Canadian  
Provinces and the Property Tax Policy Standard of  
the International Association of Assessing Officers  
(IAAO)**

Sept. 19, 2019

San Diego, CA

Alan S. Dornfest, AAS

# Excerpts from IAAO Policy Statements - 1996 (congealed into Standard in 1997)

- *...the property tax is an essential part of any truly balanced and equitable local tax system.*
- *...a strong provincial or state role in property tax administration is vital...in the uniform application of property tax laws....*
- *Local jurisdictions...must see that assessment systems are administered in a professional, equitable, and open manner.*
- *...property tax systems should adhere to the following basic principle: Assessments should be based on current market values.*
- *...exemptions should be kept to an essential minimum...other forms of property tax relief should be based on tax abatements or credits rather than limits on assessment increases....*

Standard on  
Property Tax Policy

Last  
Updated  
2010; in  
process  
2019

# Evaluative Principles

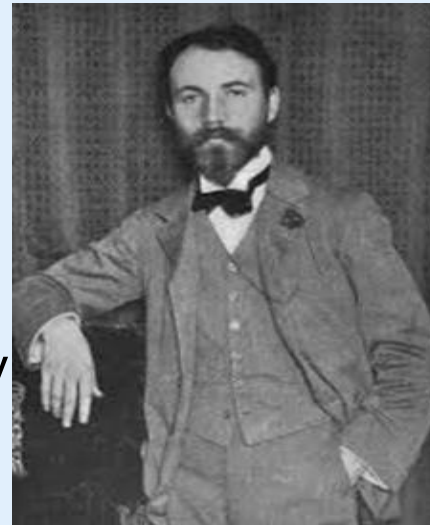
*Numerous, overlapping, and sometimes conflicting, including:*

Fair—the paramount principle

- Uniformity—measured in terms of valuation ratios or effective property tax rates
- Administered evenhandedly, not arbitrary or biased

Affordable (ability to pay)—relative to the income of the taxpayer

Beneficial—used for services that taxpayers need or value



“Governments last as long as the undertaxed can defend themselves against the overtaxed.”

- Bernard Berenson

# More Principles



“The art of taxation consists in so plucking the goose as to get the most feathers with the least hissing.”

- Jean-Baptist Colbert

- Productive—certain (enforced), stable, buoyant
- Convenience (of payment, etc.)
- Cost-effective—minimizing administrative and compliance costs while adhering to other principles
- Understandable—simple, open, & transparent

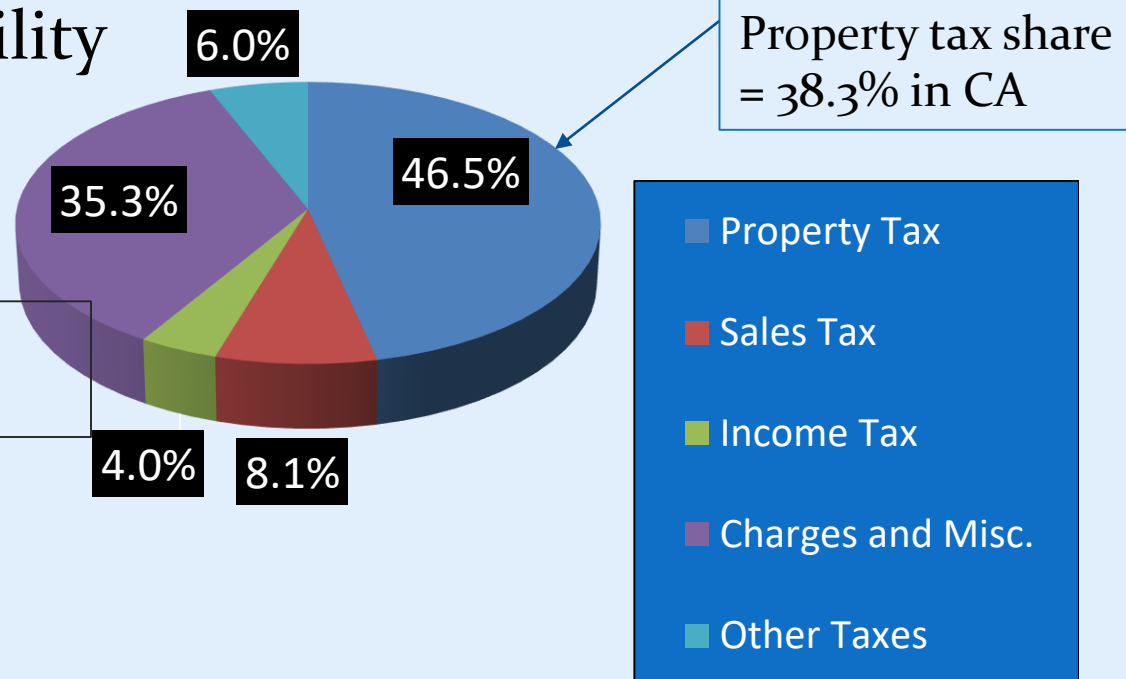
# Economic Concepts

- *To be considered along with evaluative principles (with which there may be conflicts), including*
  - Horizontal equity – similar property treated similarly
  - Vertical equity –
    - high and low priced property treated proportionately
  - Incidence – who the tax falls on\*
  - Neutrality –
    - in principle, tax should not influence economic decisions

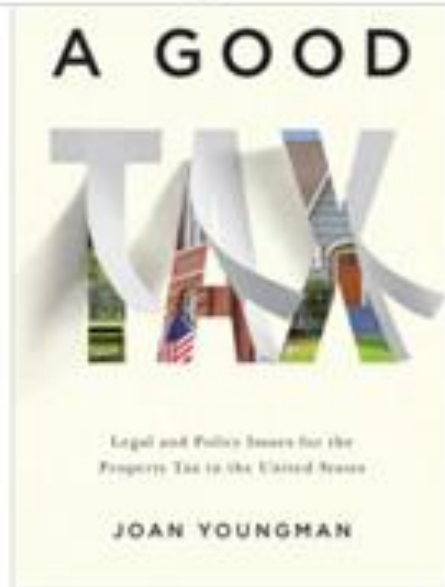
\*Economists do not agree that the property tax is regressive

# Role of the Property Tax

- Part of a balanced revenue system
- Provides the dedicated source of revenue needed for local government autonomy and accountability
- Harmonizes with social and economic policies
- Increases visibility



# A Valuable Resource in Support of Market Value and Property Tax!



Legal and Policy Issues for the Property Tax in the United States

Joan Youngman

March 2016 | English

Lincoln Institute of Land Policy

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"In this marvelous book, Joan Youngman makes a spirited case for a vibrant local property tax. She provides a wise and penetrating discussion of the difficult legal, economic, and valuation challenges in implementing market value taxation and outlines direction for reform."

— **Steve Sheffrin**, Professor of Economics, Tulane University



# Assessing Officers Role in Policy Formation

- Assessors should:
  - Help shape debates
  - Help define the requirements of policy proposals
  - Call attention to problems
  - Propose remedies and participate in policy development
  - Compile and share information with policy makers and legislators
  - Commenting on Administrative Feasibility
    - Suggesting practical and feasible alternatives
    - Providing specific language to legislators or administrators
    - New perspectives (from practitioners) are helpful

# Assessing Officers Roles (cont.)

- Identifying Problems and Solutions
  - Work with legislators and taxpayer groups to solve problems and avoid unintended consequences
  - Need to fully understand the problem in order to help create alternatives and the best solution
  - Listening and communication skills are required
- Participating in the Development of Rules
  - Administrative or oversight agencies often develop rules and regulations to clarify statutes
  - These agencies are encouraged to incorporate clear and concise language
  - These agencies are also encouraged to seek input from local practitioners in order to understand the impact of revised policies or rules

# Assessing Officers Roles (cont.)

- Tax Enforcement v. Fairness and Equity
  - Involves administering the assessment and taxation functions (as required by local laws)
    - Legislators determine taxation laws
    - Fairness of laws can be debated
    - Assessor should carry out their job requirements but inform others when legislative solutions are needed
  - Assessors should monitor fairness issues & share concerns with legislators resolve ambiguities and explain to policy makers
    - Work with legislators and citizen groups to explain the effects of various policies and
    - Help others determine if policies achieve desired goals
  - Assessing Officer should take an active role in policy implementation

# Tax Policy Analysis

- Tax research staff should provide objective information to public & legislators (local and state coordination)
  - Updates should be provided annually especially for current topics being considered by legislators
  - Research departments staff should be provided with adequate staff and computer systems
  - Reviewing proposals and the impacts should be a responsibility of these researchers
  - Compilation and interpretation of relevant information
  - Analysis should be highly objective in order to maintain credibility
- Use to dispel misunderstandings
  - Links between taxes and services provided

# But what about the future - Administrative Framework, Oversight, and Trends?

Stay tuned for part 2!

# Administrative Framework – Valuation and Oversight

- Legal environment
  - Adequate resources
  - Structure providing for valuation, collection, and oversight
  - Assignment of tasks to lowest competent authority
- State and supervisory agency roles
  - Equalization
  - Special purpose property valuation – public utilities and railroads
  - Technical assistance
- Local assessor valuation responsibilities
  - Real and personal property – Must have adequate budget and resources
  - Must administer system professionally
  - Must approach process with transparency and openness

# What's the Trend in the U.S. and Canada?

## JOURNAL OF PROPERTY TAX ASSESSMENT & ADMINISTRATION

Volume 16, Issue 1, 2019


### State and Provincial property tax policies and administrative practices (PTAPP): 2017 findings and report

[Alan S. Dornfest](#), *Idaho State Tax Commission Property Tax Division*

[Jennifer Rearich](#), *Maricopa County Assessor's Office*

[T. Douglas Brydon III](#), *Oklahoma State Tax Commission*

[Richard Almy](#), *Almy, Gloudemans, Jacobs & Denne*

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 PLUMX METRICS

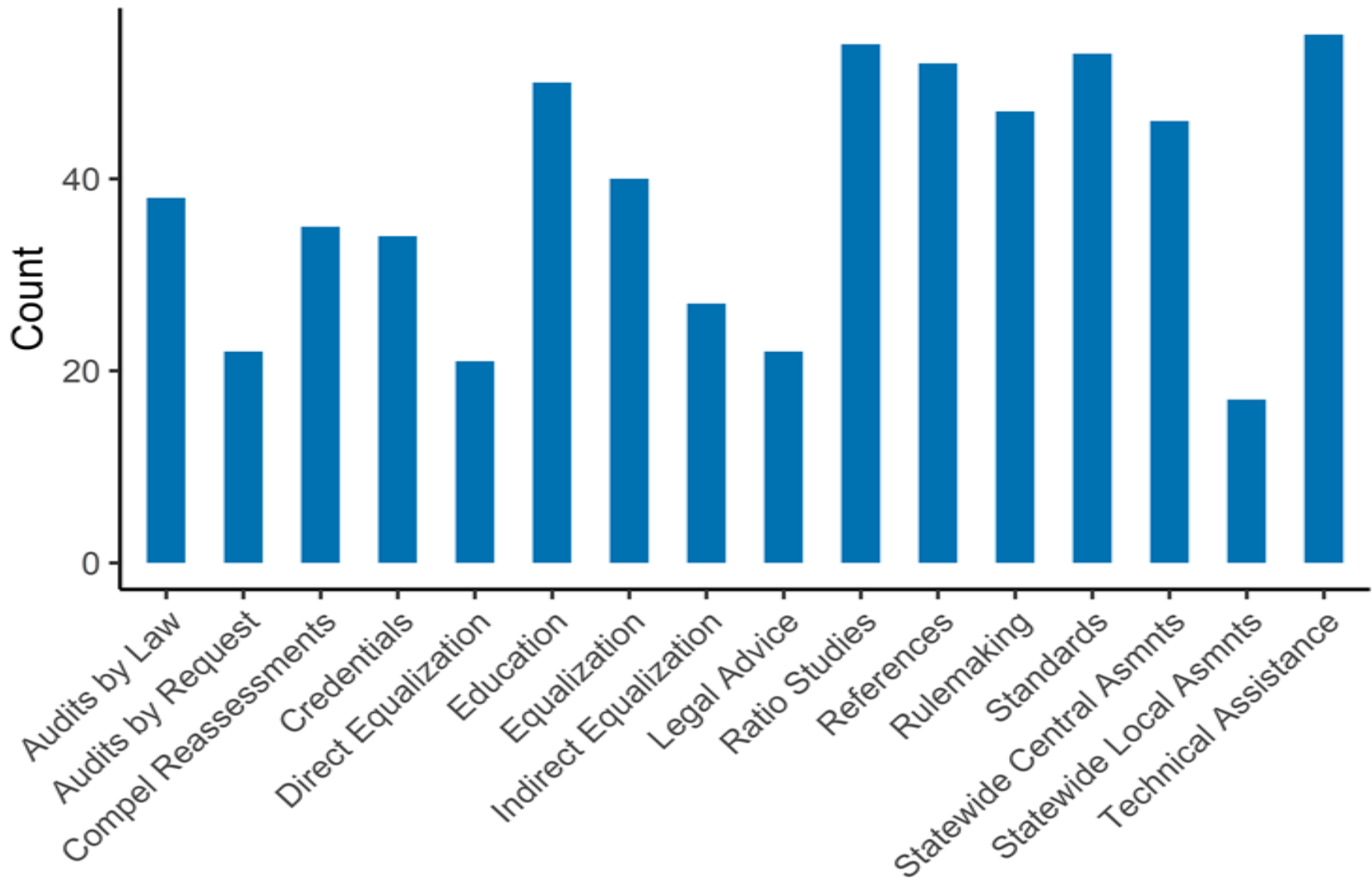
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#### Abstract

In response to a need for current information about property tax systems, since 1990 IAAO has conducted surveys of the features of property tax systems in Canada and the United States and published the results. Although the main audience comprises property tax administrators and policy makers in the two countries, readers from other countries may find the results helpful as well. The compilations of survey results published in 1990, 1991, 1992, 2000, 2009, and 2012 were based on a questionnaire sent to each Canadian province and territory and to each U.S. state and the District of Columbia. Similar to the 2012 survey the 2017 survey was limited in scope, representing an update of information and additional exploration of emerging topics. The most important focus of the 2017 survey was state appeals processes and reassessment practices.

## Roles and Authorities of State/Provincial Agencies



PTAPP 2017, Question 5

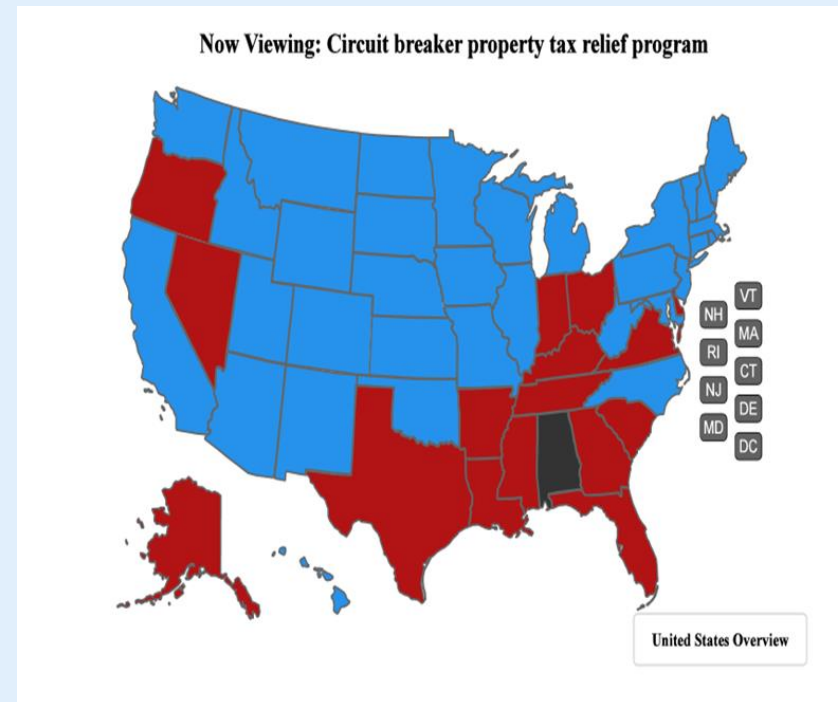


# Components of Valuation Systems

- Principles
  - Maximize equity
  - Minimize administrative complexity and confusion
  - System should be based on current market value
  - Cost effectiveness
- Fundamentals
  - Market value systems shift taxes based on changes in property value based wealth
  - Market value adds element of objectivity
  - Annual assessment contributes to equity
  - Valuers must be highly qualified and professional
    - Qualifications may be required by law
  - Land data systems must be high quality and accurate
- Appeals – intrinsic to maintain system integrity
- Structure to permit adequate data acquisition key
  - Disclosure of sale prices and other necessary valuation information
  - Taxpayer returns (personal property in U.S.)

# Systems must provide tax relief mechanisms - Circuit Breakers

- Provide property tax relief to households with highest tax burdens relative to income
- 34 States have circuit breaker programs
- Cost-effective because they target relief to households with the lowest ability to pay
- Often funded by higher level of government (Province or State), mitigating fiscal disparities across local jurisdictions.



Source: Property Tax at a Glance,  
Lincoln Institute

# Other Residential Relief Options

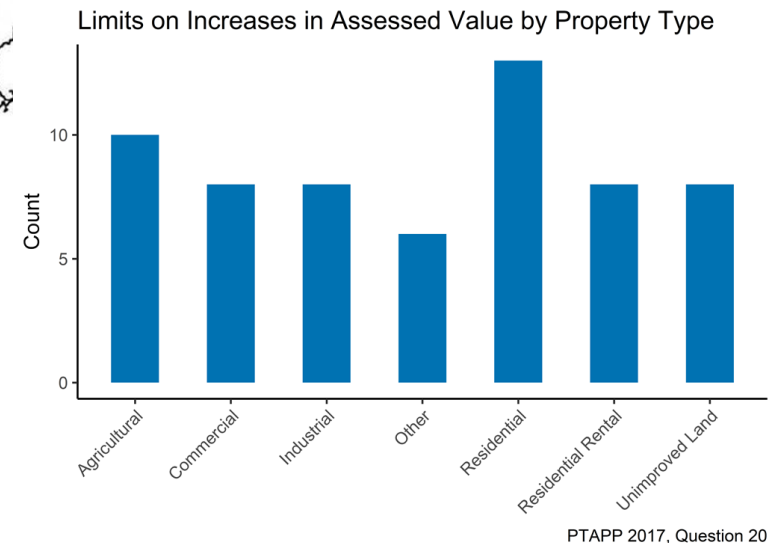
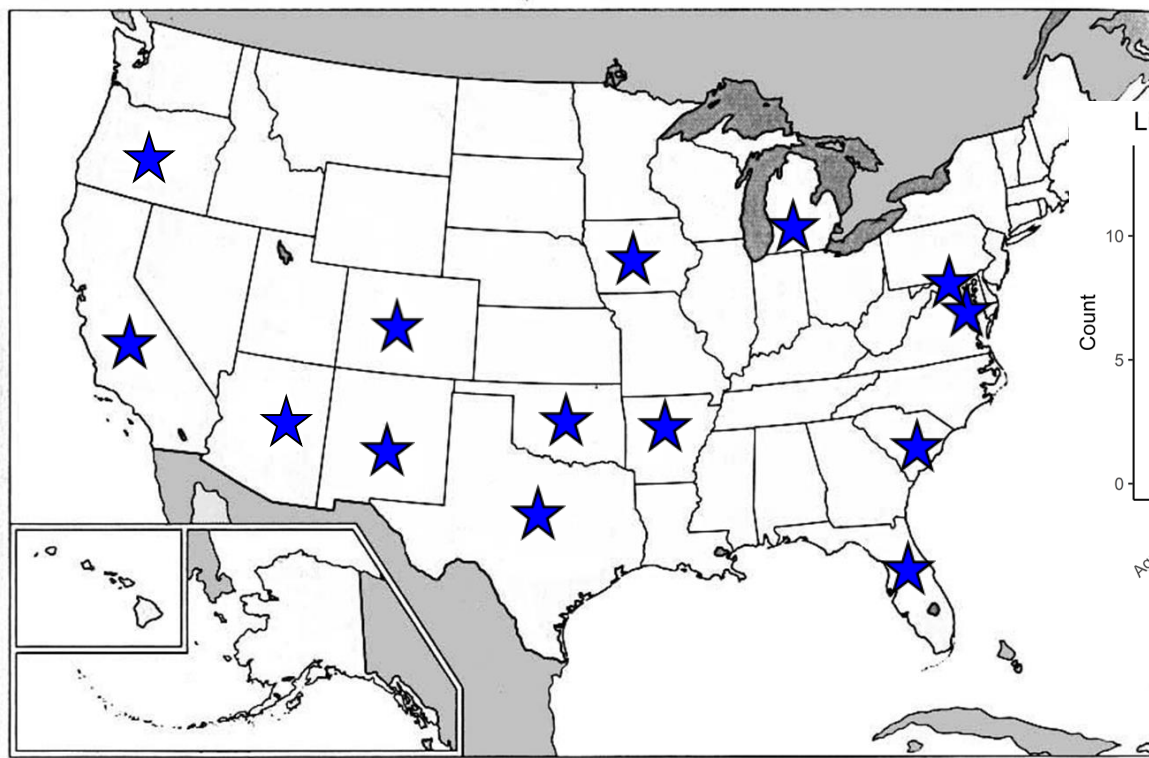
- Homestead exemptions –
  - Partial exemptions from assessed or market value (26)
  - Special for disabled veterans (34)
  - Typically restricted to primary residential
- Tax Credits – May be broader than circuit breakers
- Assessed Value increase caps
  - May permit phase in
  - May be optional or only available in certain localities within a state
  - May only affect certain levies (schools may use different value)

# Assessed value increase limits -

many variations & differing effects (some restrict to primary residential)

Some limit overall share paid by residential (IA & CO); some reset on sale (CA); some use base years and do not reset on sale (OR & AZ)

Does not include states with optional caps or those that apply in certain areas (GA, HI, IL, NY); does not include base year states with no allowable increase (PA)



# Systems often include tax incentives

- **Historic Preservation**



- **Affordable Housing**



- **Green Energy**



- **Current Use Assessments**



- The preferred property tax treatment of these activities may be deemed to be desirable, but they reduce the tax base.
- As with other forms of preferential tax treatment, they should be used sparingly and only when the outcomes they seek to produce significantly outweigh their negative impact on the tax base.

# Conclusions and Questions

- Effective property tax administration requires
  - State and local cooperation
  - Data analysis leading to data driven decisions
  - Transparent focus – with public and stakeholder outreach
  - Professionalism / education
  - Resources