Overview of the Property Tax

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Basics of the Property Tax

- In Connecticut, assessed values are set at 70% of a property's fair market value.

- Fair market value is an estimate of the amount a home would sell for on the market. This is revealed when a property is sold, it is inferred by town assessors for homes that have not sold by comparing properties to similar properties (square footage, age, number of bathrooms, etc.) that recently sold. Location is an important factor
- All properties must be reassessed at least once every five years under Connecticut General Statute.

- Property tax payments are calculated by multiplying this assessed value by a city or towns mill rate.

- The Grand List is simply the sum of all the assessed value of property: residential, commercial and industrial, in a given town or city.

Basics of the Property Tax

- A mill is equal to $1.00 of tax for each $1,000 of assessment. To calculate the property tax, multiply the assessment of the property by the mill rate and divide by 1,000.

- The property tax revenue collected in any given year is based on the grand list from the two prior years and the current mill rate rates.

- A common myth concerning the property tax is that an increase in the value of a property automatically leads to an increase in property tax payments.
  - In reality, however, towns and cities first determine their budgets and set the mill rate to cover that budget based on the existing grand list.
  - Aside from the influence of political factors, if all property values in a town increase by the same amount, the property tax payment would be unchanged.

When Do Increases in Property Values Raise Property Taxes?

- When residential values are rising more quickly than commercial or industrial property values.

- When residential values in some neighborhoods within a town or city are rising more quickly than values in other parts of the community.

- When town costs are rising faster or proportional to property values.

What's the Deal with Commercial and Industrial Property or Nonprofits and Government Properties?

- Commercial and Industrial property typically increases the grand list by substantially more than the local government costs of servicing that property (commercial and industrial properties do not have kids!).

- Therefore, a high share of commercial and industrial property on the grand list typically leads to lower mill rates to finance the same level of services.

- Nonprofit and Government properties are exempt from the property tax.

- These properties utilize land and structures that might have otherwise been used for activities that generate property tax revenue for a city or town.

- Therefore, a high share of nonprofit or government property on the grand list typically leads to higher mill rates to finance the same level of services.

Is the Property Tax Regressive? Yes and No.

- A regressive tax is one where the share of income paid in taxes rises proportionately with income or slower.

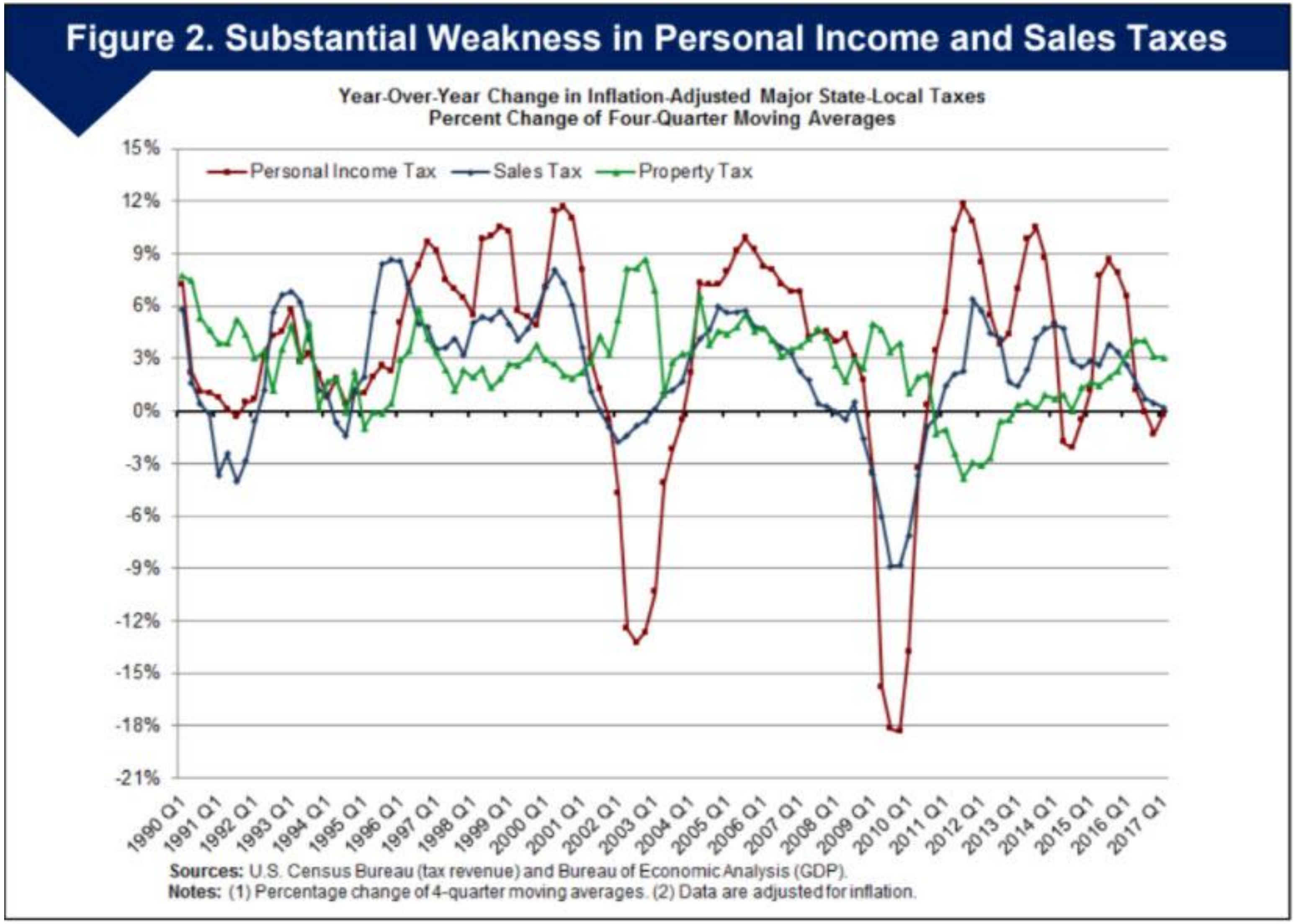
- Housing values rise rapidly with income based on both location quality and housing characteristics.

- Compared to uniform sales tax, the property tax is much less regressive, even though some necessities are exempted from the sales tax.

- Compared to the income tax in Connecticut, the property tax is somewhat less progressive because the income tax rate in Connecticut is high for higher income individuals and a base level of income is exempt from the income tax.
    - In many states, the income tax is far less progressive than Connecticut and the taxes are similar

- However, the property tax has some advantages for funding local public services relative to the income tax.
    - First, wealthy households have many ways to shelter income but can not easily shelter housing consumption. People can move; their houses cannot. Primary residence in Florida?
    - Second, in other states, a homestead exemption is used to shelter a portion of home values from taxation.
    - Third, the income raised by the property tax is much less volatile than the revenue raised through the sales or income tax.

Revenue Volatility of Major Tax Instruments



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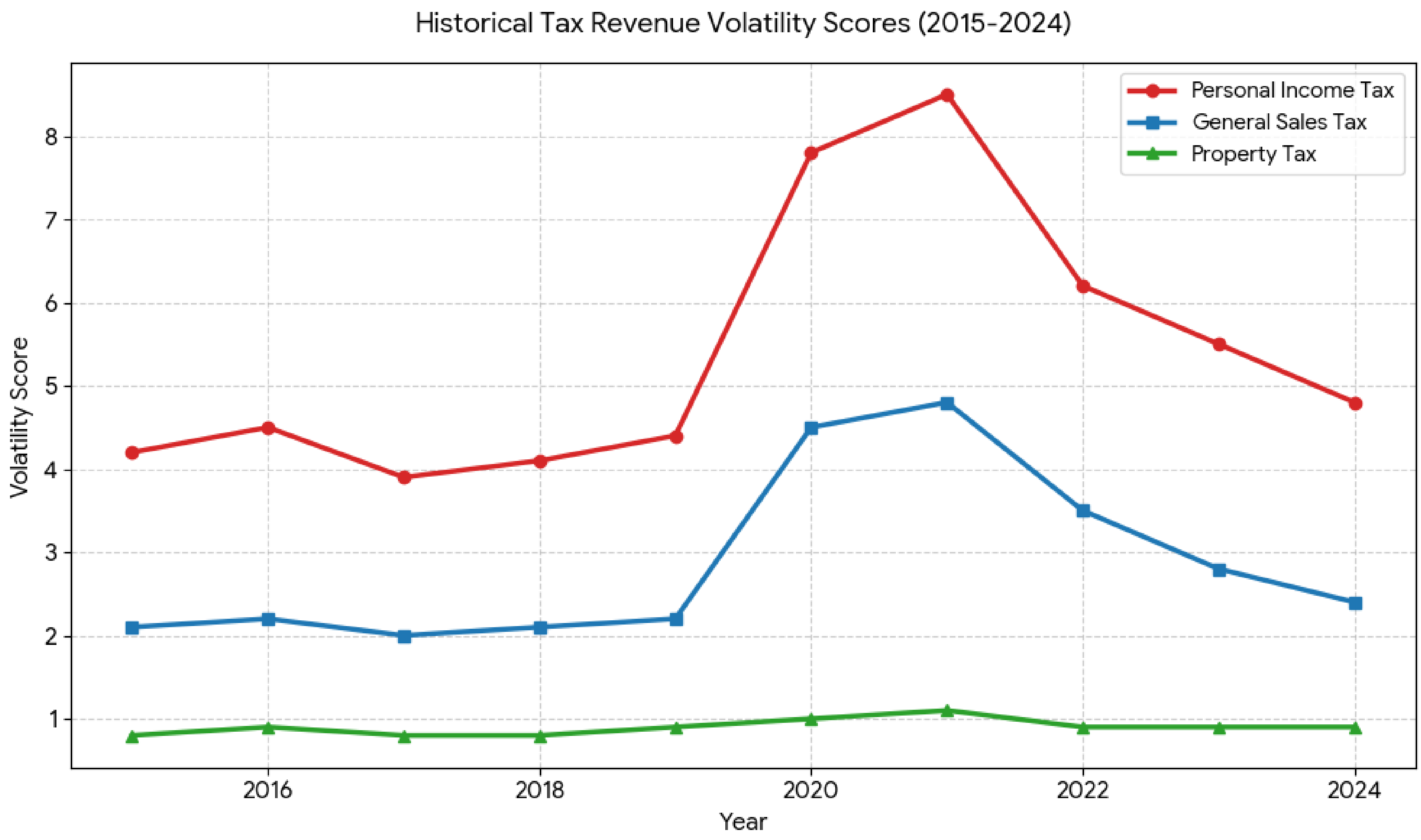

Is the Property Tax More or Less Efficient?

- Broadly speaking, economists define tax efficiency in terms of how distortionary a tax is. That is how it changes the decisions individuals would make in the absence of the tax.

- Relative to the income tax, the property tax tends to be more efficient.

- Land is immobile so it is hard to change behavior or location of economic activity to avoid the tax.

- On the other hand, individuals can potentially move their income across states to avoid paying income taxes. This can create large labor market distortions.

- Individuals can also avoid taxes on capital gains by not selling assets and can minimize taxes on other economic profits by utilizing a variety of provisions in the federal tax code.