Ridin' Shotgun

The tax from hell.
By Jeff Goodson

For the third time in the last 100 years, a property-tax revolt is sweeping America. The first, in the 1930s, was caused by high federal taxes and the Great Depression. The second, in the 1970s, was caused by high local taxes and gave us California's Proposition 13. The latest revolt, caused by an astronomical run-up in real estate prices, has given us the tax from hell.

About 96 percent of all property taxes are local. They're the primary source of revenue for counties, cities and school districts, and they're driven largely by local government employment and the cost of public education. The main reason they're rising so fast is the dramatic increase in real estate values on which property taxes are assessed. The average American home rose 21 percent in value in just the last three years, and horror stories of much higher increases abound. The value of a New Hampshire hunting cabin rose from $10,000 to $200,000 in a single year, and taxes on an unexceptional house in a place like Lake Tahoe can now run $75,000 a year.

Wages aren't keeping up with real estate prices, but spending on local government and public schools is—even though no one sees much difference in the level of government "services," or the quality of public education.

The biggest problem is that average people are being taxed out of their homes. Especially vulnerable are the elderly, those on fixed incomes, and those in rural areas where wages are low. Even for those who can pay the tax man this year, it comes at the expense of savings, investment and the local economy. Worse, it keeps landowners from maintaining and improving their property for fear that it will increase their property's value. It doesn't help that some land is either undertaxed or off the tax rolls altogether. That just shifts the tax burden onto others, a major reason why taxpayers hate environmental easements so much.

Over 20 states are now involved in major legislative battles, ballot initiatives and lawsuits over property taxes. The revolt is hottest where real estate values have increased the most, and where local governments shoulder the greatest burden for school financing. Although most states have lower tax rates for ranch and agricultural land, ranchers aren't immune from the problem. That's because agricultural exemptions usually don't apply to houses and many other improvements are taxed at market value. Ranchers most at risk are those located on the rural-urban frontier, and any place that attracts wealthy retirees, second-home buyers, and out-of-state speculators.

Landowners have little direct control over property taxes. They can always sell an environmental easement on their property and reduce its value. Or donate their land to a charity in exchange for the right to live on it, and let the charity pay the tax. Other fixes require political and legislative action. One involves getting the state to cap the percentage of assessed value, the annual tax increase, or the value of the property on which the assessment is based. California's Proposition 13, which limited taxes to 1 percent of purchase price and subsequent increases to 2 percent per year, is the classic example. Liberals and other fans of big government hate it, but at least it provided certainty that people wouldn't be taxed out of their homes.

Another fix is exemptions. Most exemptions focus on the elderly, retirees, primary residences and homesteads, and on closing exemptions for corporations and utilities. A third fix involves shifting the school finance burden onto "sin taxes"—taxes on liquor, gambling and tobacco—or onto businesses and commercial property. Shifting the burden onto sales taxes is also popular, since everyone who benefits from public education pays something. Those who spend more pay more; it encourages savings and it discourages spending.

The fourth fix is to "starve the beast" by limiting state and local spending altogether. A favorite of conservatives and fans of small government, this usually involves a constitutional spending cap that can only be overturned by popular vote. The model for this, the Taxpayer Bill of Rights or TABOR, was adopted in Colorado in 1992 and has now caught fire in the rest of the country. TABOR proposals were introduced in about half the states in 2005, and were pushed aggressively in about a dozen states in 2006.

The tax from hell may be here to stay, but controlling local government is still within the grasp of those who pay for it. At least for now. The more fundamental battle is between those who want to pay for big expensive government, and those who don't. ■

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