Property Tax Reform in Nevada

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Lessons from California

- Proposition 13 – passed by voter initiative in 1978
  - Rolled back assessments by three years
  - Lowered maximum effective tax rate to 1% of market value
  - Increases in assessed value limited to 2% per year
  - When property sold, reassessed at market value

Consequences of Proposition 13 (after 26 Years)

- **Positive consequences**
  - Lowered property tax bills
  - Limits growth in individual property tax bills
  - Provides predictability about future property tax bills

Consequences of Proposition 13 (after 26 Years) (cont.)

- **Negative consequences**
  - Limits local government revenues
  - Limits freedom of local government to choose level of revenue (and hence spending)
    - County government property tax revenue fixed
  - State government largely determines local spending

Consequences of Proposition 13 (after 26 Years) (cont.)

- **Negative consequences**
  - Reassessment at acquisition creates large *horizontal inequities* among owners of similar properties
    - Why should newcomers pay higher property taxes?
    - Less mobile households are favored
    - A real life example: investor Warren Buffet

Impacts of Proposition 13
Warren Buffet Example

- The investor Warren Buffet owns two homes in Laguna Beach, CA:
  - **Home 1 –** Purchased in mid 1970s, current market value = $4 million; 2003 property tax bill = $2,264. *Effective* rate is 0.056%.
  - **Home 2 –** Purchased in mid-1990s, current market value = $2 million; 2003 property tax bill = $12,250. *Effective* rate is 0.613%
  - Effective tax rate on home 2 is **11 times** the rate on home 1.

Consequences of Proposition 13 (after 26 Years) (cont.)

- **More negative consequences**
  - Large variation in the ratio of the market value to assessed value of commercial-industrial property
    - In LA County in 2002, some existing commercial property valued at 10 times its assessed value
    - Discriminates against new businesses
    - Has an anti-competitive effect

Consequences of Proposition 13 (after 26 Years) (cont.)

- **More negative consequences**
  - Creates an incentive not to move
    - slows housing adjustment to changes in families' circumstances
  - Creates incentives for local governments to approve new commercial development, e.g. strip malls
  - Has led to the under-funding of cities. They must rely much more heavily on user fees
  - Local governments use of developer fees has grown
    - There have been many legal complications

Impact of Assessment Cap

- Assessment cap will limit local government revenues
  - There will be increased pressure to expand state sales taxes
- Assessment cap favors properties which are appreciating most rapidly
  - Property tax regressivity will increase if higher value properties appreciate faster. Assessment ratios will be reduced for these properties

Property Tax Relief in New York

- **Large homestead exemption**
  - Exempts first $X thousand from property taxation, thus provides larger tax break to owners of low-value properties
  - Larger exemptions available to elderly taxpayers with incomes below $60,000
  - Larger exemption in wealthier counties, resulting in more regressive tax relief system
  - State government compensates local governments for lost property tax revenue

Property Tax Relief in New York (cont.)

- **In NYC assessment increases are phased in**
  - Assessment changes for commercial property fully phased in over 5 years
  - Increase in residential assessment capped at 6% per year and no more than 20% over 5 years
    - Some increase in value is permanently lost
    - Leads to higher effective rates in poorer neighborhoods