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## **A Proposal for Property Tax Reform**

*By Randall G. Holcombe, Ph.D.*

In the Special Session of the Florida Legislature scheduled for June, 2007, the House and Senate will try to enact a property tax reform that will meet with the approval of the Governor and will deliver meaningful property tax relief to Floridians. The House and Senate both have presented reform proposals, and Governor Crist's campaign contained some specific proposals.

One way to approach the Special Session would be to try to compromise on the various aspects of those earlier proposals, but that did not work well during the Regular Session. Another way would be to start with a clean slate and design from the ground up a property tax reform that would address the problems that have arisen over the past five years. Starting from this clean slate, the proposal below offers some elements that could deliver meaningful reform for Floridians. The proposal contains five components that address the commonly recognized problems.

**1. Roll back assessed values for tax purposes to their 2001 values. If this rollback is viewed as too large, increase those assessed values by a constant percentage to produce a new assessment.**

The problem of property tax escalation began around 2001. In the five years from 1996 to 2001, total property tax collections

in Florida increased by 7.6% after adjusting for inflation and population growth. In the five years from 2001 to 2006 property tax collections increased by 80% after adjusting for inflation and population growth. Given that the problem of excessive property tax growth began around 2001, a rollback to 2001 assessments makes sense.

During the Regular Session, both the House and Senate plans advocated rolling back total property tax collections, but my suggestion is to roll back the assessed values of individual properties, not aggregate collections, because not everybody's property taxes rose by the same amount during the past five years. Homestead property, protected by Save Our Homes, had a cap of 3% on assessment increases, so the bulk of this increase was borne by non-homestead property: second homes, vacation homes, apartments, and commercial property. For this reason, it would be more equitable to roll back individual assessed values rather than total property tax collections.

If the rollback to 2001 is viewed as too large, then increase everyone's assessment by a constant percentage, starting at the 2001 base. For example, starting from 2001, an increase of 3% a year for 6 years would increase assessments by 19%. If a 3% per year increase were viewed as appropriate, then all property would be assessed at its 2001 level plus 19% for

2007. This would undo the inequities that have built up since 2001.

**2. Cap future increases on the assessed value of all property to 3% or the rate of inflation, whichever is less.**

This would extend the Save Our Homes protections to all real estate in Florida, not just homesteads.

**3. Keep the cap on assessed value with the property when it is sold. Buyers would pay the same taxes on property as the sellers would have paid had they not sold.**

Following this idea, “portability” of the property tax limitation stays with the property rather than with the property’s owner. If caps were designed as in (1) and (2) above, people buying property would also benefit from the cap. People moving from one home to another, rather than taking their Save Our Homes benefit with them, would get the benefit already attached to the property they are buying. Both buyers and sellers benefit.

**4. For tax purposes, assess new construction so that it’s assessment is equivalent to existing property of the same value.**

For example, within a jurisdiction, if houses with a market value of \$200,000 have an assessed value for tax purposes of \$120,000, then a new house selling for \$200,000 would have the same assessed value for tax purposes of \$120,000. This way, new construction is treated equitably relative to existing property.

**5. Cap total local government expenditures so that they can grow no faster than the sum of local population growth plus inflation. Any increases beyond this cap would have to be approved by the voters in a referendum.**

Items (1)-(4) effectively cap the growth in property assessments so that run-ups in real estate prices do not lead to run-

ups in assessments that charge people more for the local government services than they are receiving. Assessed values would be capped, but millage rates could be increased, or other sources of revenue could be used to increase expenditures. This cap would require voter approval for increases in spending beyond growth in prices and population. This is not a limit on local government expenditures, because voters will approve increases in expenditures when they believe the money would be well-spent. Sixty of Florida’s 67 counties have local option sales taxes, all of which have been approved by the voters.

A limit on assessed values, or a substantial increase in the homestead exemption, would lose its effect over the years unless it is associated with some kind of cap. The five points in this proposal contain two caps: a cap on individual assessed values in point (2), and a cap on total government expenditures in point (5). Voters need these caps to prevent the problems that occurred in the past five years from reoccurring.

*Randall G. Holcombe is a Senior Fellow of The James Madison Institute, a non-partisan policy center based in Tallahassee, and DeVoe Moore Professor of Economics at Florida State University.*

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***CONTACT: Tanja Clendinen (850) 383-4633 [tanja@jamesmadison.org](mailto:tanja@jamesmadison.org)***