

Flaws in Recent Legislation to Provide Property Tax Relief in Florida

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There is a property tax revolt in Florida, not unlike that which occurred in California in the 1970's. Citizens and businesses are responding to the unprecedented increase in property tax burdens linked to the ratchet up effect of property taxes, demanding property tax relief. Citizens have even converged on the capital to demand that the legislatures provide some form of property tax relief.

The Florida legislature responded to this taxpayer revolt with a flurry of bills. When the dust settled several laws were enacted to reduce property tax burdens. One law requires local governments to roll back property tax collections by varying amounts, with the average roll back estimated at 7 percent. The law also caps the growth in local government revenue collections to the combination of construction and household income growth.

The Legislature also passed a new "super exemption" to the Save Our Home Amendment. Residents eligible for the homestead exemption would be given the choice to give up the tax cap in return for a more generous exemption that could be worth up to \$195000 on a \$500000 home. The "super exemption" would not apply to commercial property or non homestead exempt property. This proposed Amendment will be placed on the January 2008 ballot.

It is important to understand the flaws in existing laws and in this new legislation to provide property tax relief. The Save Our Homes Amendment, passed by citizen initiative in 1992, limits the increase in assessed value of homestead property to 3 percent per year, or the change in the consumer price index, whichever is lower. Thus property owners eligible for the homestead exemption have been protected from the escalation in property tax burdens. However, other property owners, including owners of commercial property and owners of second homes, have borne a disproportionate share of the increased property tax burdens.

Those eligible for the homestead exemption are locked into their homes if they want to continue to take advantage of the protection created by the Save Our Home Amendment. If they move within the state the property they purchase is assessed at current market value for tax purposes and they lose that benefit. One of the quirks in the Amendment is that assessed values may continue to rise even in years when property values are falling.

It is clear that the legislature has taken a populist approach to property tax relief, but this approach is fundamentally flawed, and has some perverse effects. The proposed "super exemption" amendment continues the preferential treatment for some homeowners, at the

expense of other property owners. Owners of commercial property, including landlords, are not eligible for the exemption. The higher property taxes paid by these property owners will be passed along in the form of higher prices. In the case of landlords the result will be higher rents. A high proportion of low income families rent because they cannot afford the cost of home ownership. The higher taxes paid on rental properties amounts to a regressive tax to the extent that the incidence of the tax is passed on to low income families who pay the higher rents. Owners of second homes are also not eligible for the exemption. It is not surprising that the tax revolt is fueled in part by out of state homeowners who bear a disproportionate share of the higher property taxes.

It is also important to point out other limitations in the Save Our Homes Amendment. Appraisal caps limit only one source of increased property tax burdens. Property taxes may increase either due to an increase in appraised values or to higher property tax rates. Even if the growth in appraised value of homestead property is capped at 3 percent, local jurisdictions may increase the property tax rates applied to that and other property. We would expect local officials to adjust property tax rates to sustain increases in property tax revenues, especially when appraised values are falling. We also expect local officials to shift the property tax burden to commercial and other properties that are not eligible for relief under the save Our Homes Amendment. This is why it is important to cap the total increase in property tax revenues in order to constrain the growth in property tax burdens.

The rollback provisions enacted by the legislature also have limitations as a source of property tax relief. This amounts to one time temporary property tax relief. Due to the fungible nature of local revenues we expect local officials to increase other taxes and fees not subject to the rollback. We also expect local officials to make up for any temporary loss of revenue by increasing property tax rates in the long run.

In the final analysis the most effective way to constrain the growth in tax burdens, including property tax burdens, is to impose an effective tax and spending limit. In Florida it is especially important to apply the limit at the local as well as the state level. It is at the local level where citizens have experienced the sharpest increase in property tax burdens and where the greatest agitation exists for tax relief. If Florida is to provide property tax relief it should provide it to all property owners, rather than to a group of homeowners with the greatest political clout. The best way to do that is to reduce property tax rates on all property. A tax and spending limit can be designed to provide property tax relief and reduce property tax rates.