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Scoppe: The surprising (to some) truth about property taxes

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IT'S TEMPTING to ignore the maneuverings as the deceptively impressive-sounding Tax Realignment Commission gears up for its review of our state's tax system. After all, there is no reason to believe that this panel's work will be taken any more seriously than the work of any of its predecessors, since the Legislature removed all the mechanisms that could have made it useful and, as if that weren't bad enough, prohibited it from even looking at the 2006 tax "reform" that is one of the most problematic parts of our tax system.

But legislators have committed to the process, either because they believe that it will finally nudge them into overhauling our antiquated, special-interest-inspired tax system or that it's yet another way to delay actually doing anything, and so we are obliged to hope, against all reason, that the "TRAC" will make useful recommendations that the Legislature will actually act on.

By extension, we are obliged to take the whole thing seriously enough at least to refute the flights of fancy that threaten to poison the panel's work. Which brings me to Senate President Pro Tempore Glenn McConnell.

Last week, Mr. McConnell announced that he had appointed Don Weaver to sit on the panel and praised the veteran tax protester's lobbying for reduced residential property taxes. Then he expressed confidence that Mr. Weaver would "be the voice of the homeowner who has long shouldered the heaviest burden in our current tax system" and "make sure that homeowners are not sacrificial lambs to the special interests and status quo in Columbia."

Normally, one little sentence buried in the middle of a news release on (yawn) tax policy wouldn't be worth comment. Politicians are, after all, given to hyperbole. But Mr. McConnell — who is arguably the most powerful member of the Legislature — clearly meant for his comments to set the tone for the tax study panel's work. More significantly, his comments reflect a misperception that many legislators insist on clinging to, and that misperception remains a significant roadblock to rational tax policy.

It's true that when lawmakers passed a monstrosity of a tax "reform" package in 2006, our state and local tax system relied too heavily on property taxes (and as a result of that legislation, today it relies too heavily on the sales tax). It's also true that there were some problems with the property tax — rental property was (and is) taxed at too high a rate, for instance, and our state was (and is) one of the few that lack income-based circuit breakers, which manage, without undermining the entire system, to protect homeowners from having to pay too much in taxes in relation to their income.

What is not true — what never has been true — is the idea that that homeowners ever have "shouldered the heaviest burden" in our tax system. In fact, that claim is even further from the truth today than it was just three years ago.

To begin with, property taxes make up less than a third of the revenue that operates state and local government. Even if you consider only property taxes, though, the claim is still off base: Homeowners don't (and didn't) pay most property taxes — or even the largest share of property taxes: That distinction goes to commercial property owners.

Before the Legislature changed the law in 2006, homeowners were on track to pay \$1 billion of the \$4.9 billion in projected 2008 property taxes. Rental and other commercial property owners were projected to pay \$1.8 billion. Other large payers were vehicle owners and manufacturers (\$650 million each) and utilities (\$470 million).

Now, \$1 billion is nothing to sneeze at, but let's do the math: It was just 20 percent of the total property tax bill. Moreover, homeowners didn't actually pay that \$1 billion.

The state's economists made those projections to help lawmakers figure out how much they'd have to raise other taxes in order to give homeowners a significant tax break. The Legislature ended up increasing the sales tax by a penny on the dollar and eliminating the property tax that homeowners paid for school operations. That cut the tab for residential property taxes in half, which means that today homeowners pay about 10 percent of the property taxes — and significantly less than 5 percent of all state and local taxes.

Legislators are so proud of that disastrous tax swap that they prohibited the tax study panel from even talking about changing it, which makes the idea that homeowners need somehow to be protected from the commission's work all the more ridiculous.

The Legislature already has gone too far in reducing the share of the tax burden that homeowners shoulder, and in so doing it has made our tax system far less stable and reliable. That shift has done as much as the recession to threaten vital public services — not the least of which are the police and fire protection and the good schools that play such a huge role in determining the value of homes and other properties. The last thing we need is to push the pendulum even farther off center.

The odds are not good that the tax commission, having been emasculated before it even was impaneled, will prod legislators to produce a tax system that is balanced and fair, that is wide and thin, that can weather economic storms, that doesn't imperil our economy or reward behaviors we'd rather not reward. But there's absolutely no chance that this will happen as long as the tax debate is based on fiction.

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