The Economics of Property Tax Policy:
A State-by-State Comparison of Variability in Property Tax Rates

An itamlink Research Study
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Introduction

In this paper, we conduct a rudimentary correlation analysis of the markets most and least reliant on property taxes and compare them against a few key economic indicators. All states have property taxes (at least at the local level), but what are the key factors driving policy on a state by state basis? Could there be a correlation between policy and other economic factors?

The purpose of the paper is to review such patterns and provide insight derived from some of the complexities associated with property tax. Ultimately, it points to the utility of itamlink, and the ease with which it can help users navigate through chaos, particularly when portfolios can be spread across wide geographic footprints.

In matters of property tax, a consistent and recurring theme is the variability of tax rates and tax policy across different jurisdictions. Urban Institute conducts very sophisticated work, and recently presented some fascinating statistics depicting the degree of this variability.

When we reviewed the report, one statistic really stood out and concerned how reliant some states were on property tax. Though all states rely on property tax to some degree there were some who were particularly reliant. According to Urban Institute:

“New Hampshire was the most reliant on property tax revenue in 2019, as the tax accounted for 36 percent of its combined state and local general revenues.”

We wondered what it was about New Hampshire in particular that made it stand out the way it did. For that matter what were the characteristics of the other states on this list, as well as those at the bottom of the list? We believed this was tied to their correlation to other underlying factors that might present a more complete picture, so this prompted us to dig a little deeper.
We proceeded to conduct our own investigation and found detailed statistics from the Tax Policy Center of Urban Institute and The Brookings Institution which largely validated these findings. Chart 1 shows an infographic extracted from that data showing the top ten states most heavily reliant upon property tax revenues.

We then extrapolated a data set at the opposite end of the spectrum showing those states least dependent on property taxes. These findings are displayed in Chart 2.

Though New Hampshire prides itself on having no income or sales tax, this is offset by property taxes, which means the state is heavily reliant on property tax to fund local services and public education.

Alabama collects lower per capita taxes than nearly all other states, posing challenges for local governments and schools in funding services. To compensate, the state imposes the nation's highest sales tax rates.
A cursory analysis of these numbers might suggest the latter grouping possesses a greater degree of resilience in terms of tax dependence, but before jumping to conclusion, remember, these figures are expressed as percentages, and actually represent the proportion of revenue collected by governments from all sources.

Consider the most significant source of revenue comes from transfer payments from both the Federal and State governments, which according to Urban Institute research constitutes 51% of total general revenues. But in addition to property taxes, local government also generate revenue from several other sources, including individual income taxes, general sales taxes, selective sales taxes (think about items such as alcohol, gas, tobacco products), corporate income taxes, and estate taxes. Thus, property tax is only one part of the equation.

One theme repeatedly emphasized in this forum is the fact that tax policy between states differs widely, so in some states, the funds they may not be able to generate in one area are made up in other areas. This explains New Hampshire’s heavy reliance on property tax in the absence of individual income tax or general sales tax. Another example is Florida, which since 1968 has eliminated the collection of income tax. This, in part, has contributed to explosive growth within the state.

Tax policy in general is a function of many variables, but we had a hunch that these numbers might better be explained by examining a connection to other economic factors. Our thesis was basic: property tax dependence was a function of the general economic health of an area; the higher the dependence on property taxes, the greater its economic health, which in turn is the major driver of real estate prices (for both residential and non-residential real estate).

Examine the Impact of Per Capita GDP

Once we established a viable framework to proceed, it was simply a matter of sourcing the right statistics. We began by examining data measuring GDP output from the Bureau of Economic Analysis, which is an area within the U.S. Department of Commerce. We initially gathered cumulative data on GDP by State and Region. Once this was collected, we divided it by the population of each state to yield a per capita estimate. Chart 3 shows the states with the top ten highest levels of per capita GDP.
Now, let’s compare this with the states having the lowest per capita GDP. This information is provided in Chart 4.

### Chart 4

#### States with lowest per capita GDP

<table>
<thead>
<tr>
<th>State</th>
<th>Per Capita GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>TENNESSEE</td>
<td>$46,612.35</td>
</tr>
<tr>
<td>NORTH DAKOTA</td>
<td>$46,612.35</td>
</tr>
<tr>
<td>WEST VIRGINIA</td>
<td>$45,906.52</td>
</tr>
<tr>
<td>OKLAHOMA</td>
<td>$45,736.35</td>
</tr>
<tr>
<td>KENTUCKY</td>
<td>$44,740.50</td>
</tr>
<tr>
<td>LOUISIANA</td>
<td>$44,656.31</td>
</tr>
<tr>
<td>ARKANSAS</td>
<td>$44,294.09</td>
</tr>
<tr>
<td>DELAWARE</td>
<td>$42,383.39</td>
</tr>
<tr>
<td>NEW MEXICO</td>
<td>$40,050.93</td>
</tr>
</tbody>
</table>

Source: Bureau of Economic Analysis (U.S. Department of Commerce) Q3 2022

When these datasets are compared, there is a loose connection within the top ten as three of the states (Massachusetts, Connecticut, and Texas) are also on the list of the most dependent on property tax. This also may suggest that given the high output, the economy is more diversified, which in turn allows a greater proportion of income to come from those other areas cited above, including income tax and corporate tax.

"There is a loose connection...as three of the states...are on the list of the most dependent on property tax. This also may suggest...the economy is more diversified"  

We also can’t discount the impact of legislation in some states limiting the amount of property tax that can be collected. In this regard, simply consider the impact of Proposition 13, a piece of legislation passed in California in 1978 which restricted increases on assessments. We will discuss this in greater detail in a subsequent paper.

### Chart 5

#### States with highest per capita income

<table>
<thead>
<tr>
<th>State</th>
<th>Per Capita GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>CONNECTICUT</td>
<td>$85,486.63</td>
</tr>
<tr>
<td>MASSACHUSETTS</td>
<td>$84,516.93</td>
</tr>
<tr>
<td>NEW JERSEY</td>
<td>$79,016.74</td>
</tr>
<tr>
<td>COLORADO</td>
<td>$76,592.81</td>
</tr>
<tr>
<td>CALIFORNIA</td>
<td>$76,404.45</td>
</tr>
<tr>
<td>WASHINGTON</td>
<td>$76,303.90</td>
</tr>
<tr>
<td>NEW HAMPSHIRE</td>
<td>$76,100.76</td>
</tr>
<tr>
<td>NEW YORK</td>
<td>$76,072.67</td>
</tr>
<tr>
<td>WYOMING</td>
<td>$72,077.54</td>
</tr>
<tr>
<td>MARYLAND</td>
<td>$70,475.18</td>
</tr>
</tbody>
</table>

Source: Bureau of Economic Analysis (U.S. Department of Commerce) Q1 2023

From the outset, we found that four of these states (Connecticut, Massachusetts, New Jersey, and New Hampshire) also were the most dependent on property taxes. That may seem tenuous, but if we take a closer look, we see California is not on the list, likely owing to assessment limitations imposed by Proposition 13. More importantly, however, this again reinforces the idea that states not on the list have well diversified economies and are more balanced in terms of the proportional funding coming from other sources.

What is also notable here is the top three states most reliant on property tax (New Hampshire, New Jersey, and Connecticut) are all on the list of states with highest incomes.
Connecting Economic Indicators to Real Estate Prices

Perhaps the most interesting correlation comes when examining the bottom ten states in terms of income. Look closely at Chart 6.

**Chart 6**

States with lowest per capita incomes

- MISSISSIPPI: $45,826.82
- WEST VIRGINIA: $48,840.51
- ALABAMA: $51,197.79
- ARKANSAS: $51,853.81
- KENTUCKY: $51,856.53
- NEW MEXICO: $52,241.72
- LOUISIANA: $53,866.06
- SOUTH CAROLINA: $55,157.01
- OKLAHOMA: $56,142.76
- MICHIGAN: $56,613.40

Source: Bureau of Economic Analysis (U.S. Department of Commerce) Q1 2023

Of the ten states with the lowest per capita income, a whopping seven (West Virginia, Alabama, Arkansas, Kentucky, New Mexico, Louisiana, and Oklahoma) are least dependent on property tax. This finding tends to demonstrate states least dependent on property tax are not necessarily making some statement about how much they may resist the idea of paying taxes, but maybe something a little more benign.

"Of the ten states with the lowest per capita income, a whopping seven are least dependent on property tax."

It seems there are higher correlations between the datasets at the bottom of the list, which might simply be a function of real estate values. Based on this supposition, we finally conducted an analysis of the states with the highest and lowest median values.

**Chart 7**

Highest median home values in US

- HI: $636,400
- CA: $538,500
- MA: $398,800
- CO: $369,900
- WA: $366,800
- NJ: $342,500
- OR: $336,700
- MD: $325,400
- NY: $325,000
- UT: $305,400

Source: World Population Review March 2023

Determining the values of non-residential assets can be trickier, so we simply looked at the value of home prices as a proxy. The higher the median prices of real estate, the more likely a greater amount of revenue will be derived from property taxes. Chart 7 shows the states with the highest median home values in the United States.

This data reveals only two of the ten (Massachusetts and New Jersey) are most reliant on property tax, but when we remove Hawaii as an outlier (more difficult for people to move to other states which keeps demand high), and California is again limited by Proposition 13, and we look at the top fifteen, that number jumps to five (Connecticut, Rhode Island, and New Hampshire), a loose connection appears.

Finally, let’s examine the states with the lowest median home values, which is displayed in Chart 8.
Lowest median home values in US

$123,200 $125,500 $133,600 $142,400 $147,100 $148,900 $149,600 $151,400 $151,400 $157,600

WV MS AR OK KY IN AL IA OH KS

Source: World Population Review March 2023

Five of these states are least dependent on property tax, reinforcing our suspicion that lower real estate values limit the ability to generate the type of revenue states with higher real estate values are more readily able to achieve. Thus, they need to generate proportionally higher revenues from other tax sources.

“...lower real estate values limit the ability to generate the type of revenue states with higher real estate values are more readily able to achieve.”

Ultimately, this suggests that when property values are higher, it is not necessarily a signal that the places where a particular real estate asset is situated will generate the highest proportion of revenue from property taxes, but the fact five are in the top fifteen suggests an awareness of the importance of this as a funding source. The bottom ten is more telling, as it confirms that low values lessen the importance of property taxes in the overall scheme of public financing.

Conclusion

Given these findings, are we able to extract the ultimate take-away? Firstly, it reinforces a common theme that we continually emphasize: there is a great amount of variability in property tax policy that exists from state to state, so this analysis provides a clearer picture as to why such variability occurs. If a particular state possesses a certain degree of economic clout, it has a better ability to generate revenue from other potential sources of income. One might liken this to having a more balanced investment portfolio.

With this said, given the value of real estate is often tied to the income and output of a region, it naturally yields higher real estate values. But this shouldn't signal an open invitation for governments to automatically capitalize. Depending on an individual state's policy toward assessment, those higher-value areas naturally have a better ability to generate revenue from property taxes if they choose to do so, but we must be mindful that when setting policies that are too aggressive, state governments run the risk of alienating themselves from voters (the rationale behind California's Proposition 13).

Large institutional portfolio owners, with assets spread across multiple jurisdictions and wide geographic areas, face complex property tax obligations that go beyond mere payment. It is a complex undertaking and this exercise has provided a sampling of some of the many variables that come into play and that must be given careful consideration when setting policy. In turn, at a high level, this can demonstrate why one state may be more or less reliant on property taxes than another. The data in this case can often become overwhelming unless it is attacked in an orderly and structured fashion.

The same can be said about the way property tax obligations should be optimally managed. Creating a structured methodology can be vital. If an assessment it sent, and the recipient senses that assessment may not be correct, there is probably grounds to initiate further investigation, but given the complexities and variability, property tax professionals need the type of tool that can provide order, structure, and logic to the process.

This is where itamlink can help. It is a one of a kind software that is embedded with functionality that considers many variables across multiple jurisdictions. In terms of managing appeals, itamlink is a game-changer. Contact us now for a demo and you will see for yourself how it will fundamentally empower you in ways never envisioned.

Learn how itamlink can help you save time and reduce risk

itaglink.com/request-a-demo
About itamlink

itamlink, is a purpose-built property tax management software designed to eliminate the guesswork from managing your property tax obligations. itamlink, a pioneer in the property tax software industry, was acquired by Altus Group, a global leader in commercial real estate, in May 2022, an acquisition leveraging joint synergies between both organizations.

About Altus Group

Altus Group (TSX: AIF) is a leading provider of asset and fund intelligence for commercial real estate. We deliver our intelligence as a service to our global client base through a connected platform of industry-leading technology, advanced analytics and advisory services.

Trusted by the largest CRE leaders, our capabilities help commercial real estate investors, developers, proprietors, lenders and advisors manage risk and improve performance throughout the asset and fund lifecycle.

Altus Group is a global company headquartered in Toronto with approximately 3,000 employees across North America, EMEA and Asia Pacific.

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