



Written Testimony of Kail Padgitt
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Committee on Ways and Means
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Regarding H.B. 366

HB366 State Property Tax - Homeowner's Property Tax Assessment Cap Reduction

My name is Kail Padgitt and I am currently Staff Economist at the Tax Foundation, a non-partisan, non-profit research institution founded in 1937 to analyze tax issues and raise economic awareness among taxpayers, lawmakers, and media. We track tax-related issues at all levels of government and follow property tax issues on the state and local levels.

We appreciated the opportunity to submit this written testimony regarding H.B. 366 to the Ways and Means Committee. The Tax Foundation takes no position on the bill but is eager to provide information about the subject matter. HB366 is designed to eliminate assessment shock by capping annual assessment increases at 5 percent, instead of 10 percent, for state property tax purposes.

There are three primary ways to limit property taxes: rate limitations, assessment limitations and revenue limitations. Thirty-four states have a rate limitation, 20 states have an assessment limitation, and 29 states have some sort of revenue limitation.¹

There are two potential benefits for property owners in a state with some sort of tax limitation: (1) a limit on total tax liability and (2) insurance against unexpected increases in tax liabilities. The distinction between these two benefits provides some insights into Maryland's assessment limit.

When someone buys property in Maryland, he assumes two risks. The first is that the government may unexpectedly enact new policies that require much higher taxes. The government could decide, for example, to undertake a major public works project funded through property taxes. The second risk is that the property owner's share of the total tax base will increase. That is, if one neighborhood's assessments rise while another

¹ Anderson, Nathan (2006) "Property Tax Limitations: An Interpretative Review" National Tax Journal 59(3) pp. 685 – 694.

neighborhood's assessments decline, then tax burdens will shift.

In the first case -- the state's initiating an expensive new public program -- an assessment limitation such as the one Maryland already has, and which this bill would make stricter, is not by itself an effective limit on the total amount that taxpayers will have to remit. If the government can raise the property tax rate at will, it can generate whatever revenue it needs no matter what is happening to assessments. Despite the assessment limitation, the state can always insure that revenue rises. A combination of assessment limits, rate limits and a fixed assessment ratio is required to keep an effective lid on property tax payments.

However, assessment limits by themselves do have important consequences. They shift the tax burden from people whose property rises more rapidly than the cap allows to people whose property values rise more modestly. And property values never rise or fall uniformly throughout the state, so over time a substantial tax burden shift will take place with a low cap. This may not be fair, but it does prevent unexpected increases in individual liabilities. The cost (or premium) of what is, in effect, an insurance policy is borne by those property owners whose assessments rise slowly or not at all. Meanwhile, the insurance policy protects people whose property is suddenly worth a great deal more -- presumably exactly what they were hoping for when they bought the property.

Twenty states currently have some form of assessment limitations. Five of those states enacted assessment limits after overall revenue limits were in place. The question before Marylanders is how best to balance the fairness of property tax assessments with the uncertainty in property tax liabilities.

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