



Fair and Equitable Property Tax Systems

Policy Position

Position: *State and local property tax systems must be fairly administered and tax burdens equitably distributed among taxpayers. A property tax system that is inefficient or that disproportionately falls upon business is not equitable and will negatively impact a state's business tax climate.*

Explanation: Property taxes are the single largest source of state and local tax revenue, accounting for nearly one-third of all state and local tax collections. Property taxes also account for the largest share—thirty-five percent—of total state and local taxes on business.

COST has long supported fair, efficient and customer-focused tax administration.¹ Due to the uniqueness of property taxation, the following areas must also be considered when evaluating a state's property tax system:

- Uniform Tax Base and Rates – A property tax base disproportionately comprised of business property is not balanced. The tax rates imposed on property used for business purposes should not significantly differ from the tax rates imposed on property used for residential purposes. The market value and assessed value ratios for business and residential property should also be similar. Furthermore, intangible property, such as trade names, customer relationships and goodwill, should not be included in the property tax base because such property is associated only with the management of business and the measurement of such value is extremely subjective. Finally, wholesale exemptions of property used for residential purposes and artificial caps that do not equally apply to property used in business are inherently unfair and fiscally unsound.
- Efficient Filing Procedures – The format and filing due dates for property tax returns, including requests for supplemental information and extensions, should be uniform across the State and allow enough time for proper completion after the valuation lien date. Taxpayers should be provided sufficient time to review assessments (e.g., 60 days) so as to minimize the number of protective appeals that are filed. Streamlined procedures should be provided for property owners to obtain exemptions. A statewide valuation methodology that is conducted in accordance with Uniform Standards of Professional Appraisal Practice (USPAP) and updated on a regular basis to factor in changes in value, including depreciation and all forms of obsolescence, should be utilized. An efficient property tax system should also utilize modern electronic filing methods and provide for exclusions from reporting and paying tax on *de minimis* amounts of property.
- Centralized Review and Uniform Appeal Procedures – If property tax returns are filed locally, a central agency should review and have oversight over localities' property tax procedures. Appeal procedures and dates for property tax valuations should be uniform across the State. Decisions of local property tax review boards should be subject to a *de novo* review by an independent tribunal, preferably one that has statewide jurisdiction and an expertise in property taxation.

¹ See COST's policy Statement on Fair, Efficient and Customer-Focused Administration (www.cost.org).

- Tax Payment Requirements on Contested Valuations – Local governments and other beneficiaries of property taxes can suffer significant harm when valuation disputes lead to substantial refunds of property taxes that have already been appropriated. Ideally, taxpayers should only have to pay the tax on the undisputed value or only on a portion of the contested value of the property. Alternatively, when a significant amount of tax is in dispute, such amounts should be kept in escrow to minimize the harm to the beneficiaries of the tax should the taxpayer prevail in the dispute. At the bare minimum, if a reduced payment or escrow is not allowed, the beneficiaries of the tax must be notified of the dispute to ensure the disputed tax revenue is used prudently. Any interest charged must apply equally to overpayments and underpayments.

The above areas are essential components of fair and equitable property tax systems. Other areas, such as the appropriateness of any specific property tax levy, may deserve consideration on a local or State basis.