

EXHIBIT C



# State of Arkansas Tax Relief and Reform Legislative Task Force

## Issues Related to Property-based Taxes

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## Discussion Topics

- Property Tax Overview
- Property Taxes in Arkansas and Comparison to Other States
- State-Local Relationships
- Assessments, Reappraisals and Millage Rates
- Key Property Tax Issues
- Property Tax Relief Mechanisms
- Property Tax Reform Efforts Across the U.S.
- Current Issues and Trends Affecting Property Taxes
- Summary: Opportunities for Arkansas



# Property Tax Overview



## History of Property Taxes in the U.S.

- During colonial times, property taxes were typically specific taxes levied at fixed rates on enumerated items (e.g. a flat rate per acre of land).
- By 1796, only 4 states taxed property by value; no state constitution required that taxation be by value or required that the rates on all kinds of property be uniform.
- In 1818, Illinois adopted the first uniformity clause – and other states followed.
- By the turn of the 20<sup>th</sup> century, property tax provided 45 percent of own source general revenue received by state governments. That share declined steadily as states adopted sales and income taxes.

Source: Glenn W. Fisher, Wichita State University, "History of Property Taxes in the United States"



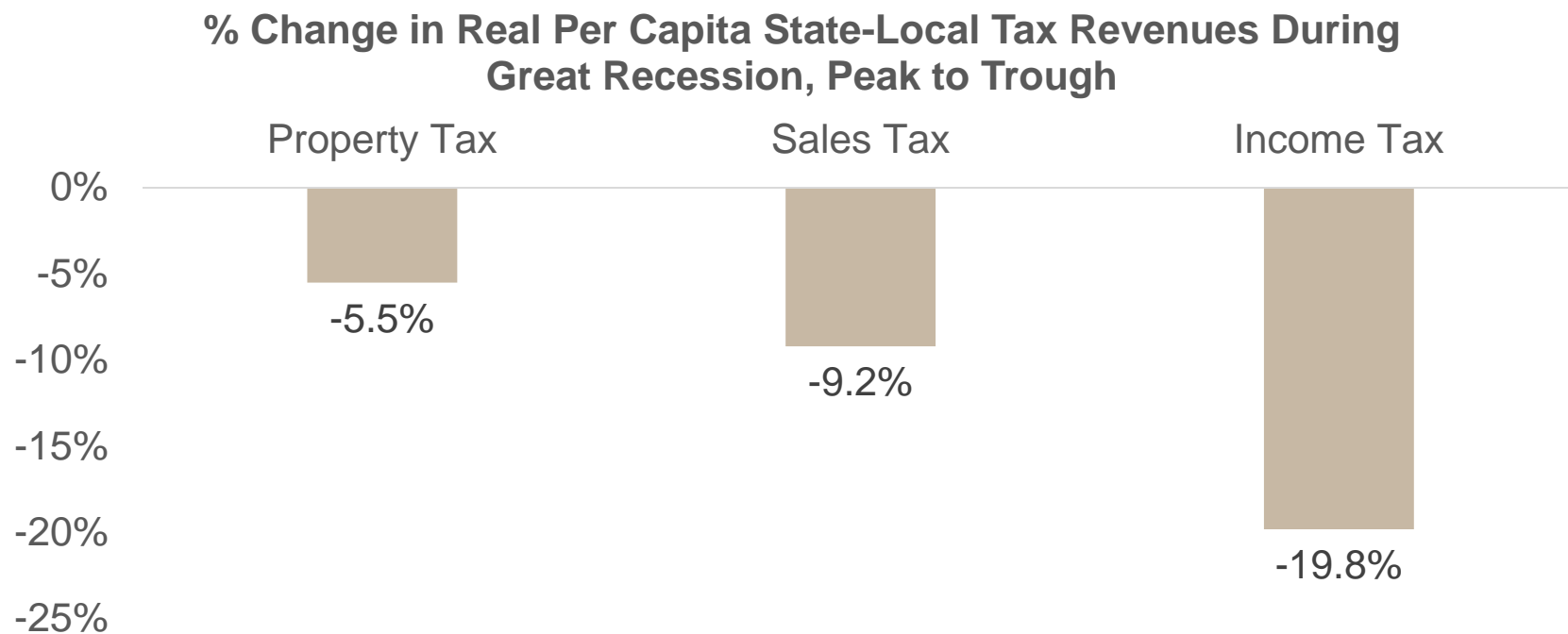
## Key Characteristics of Property Taxes

- Property taxes are collected from commercial and industrial establishments, utilities and farms as well as from homeowners and other individuals who own real or personal property.
- Property taxes are based on two kinds of property: **real** and **personal** property.
  - **Real** property is all tangible, owned real estate that is fixed and not readily movable. This includes land and all structures and improvements made to that land, such as buildings, homes and barns.
  - **Personal** property is subject to ownership and tangible (like real property) but is movable and may be either animate or inanimate. Basically, it is everything that is subject to ownership, tangible and movable, excluding money.
- In Arkansas, items of household furniture and furnishings, clothing, appliances and other personal property used within a home were exempted from personal property tax by Amendment 71.



## Property Tax Strengths

- Property taxes are a historically stable revenue source.
  - Because property values generally change slowly, the property tax provides a more reliable tax base than income or sales tax.



Source: U.S. Census Bureau, Annual Survey of State and Local Government Finances



## Property Tax Strengths

- The property tax is levied on mostly immovable fixed assets, which means it is difficult to evade the tax.
  - The property tax has the highest collection rate of any major tax.
  - Collection rates in high performing local governments are over 95 percent
- Property tax systems are more open and visible than those for other taxes.
  - Property owners can examine their assessments and those of comparable properties and have the opportunity to appeal assessments.
  - Property owners receive a bill showing the entire tax liability.
- Property tax is collected to provide local services that have a connection to the overall value of the property.



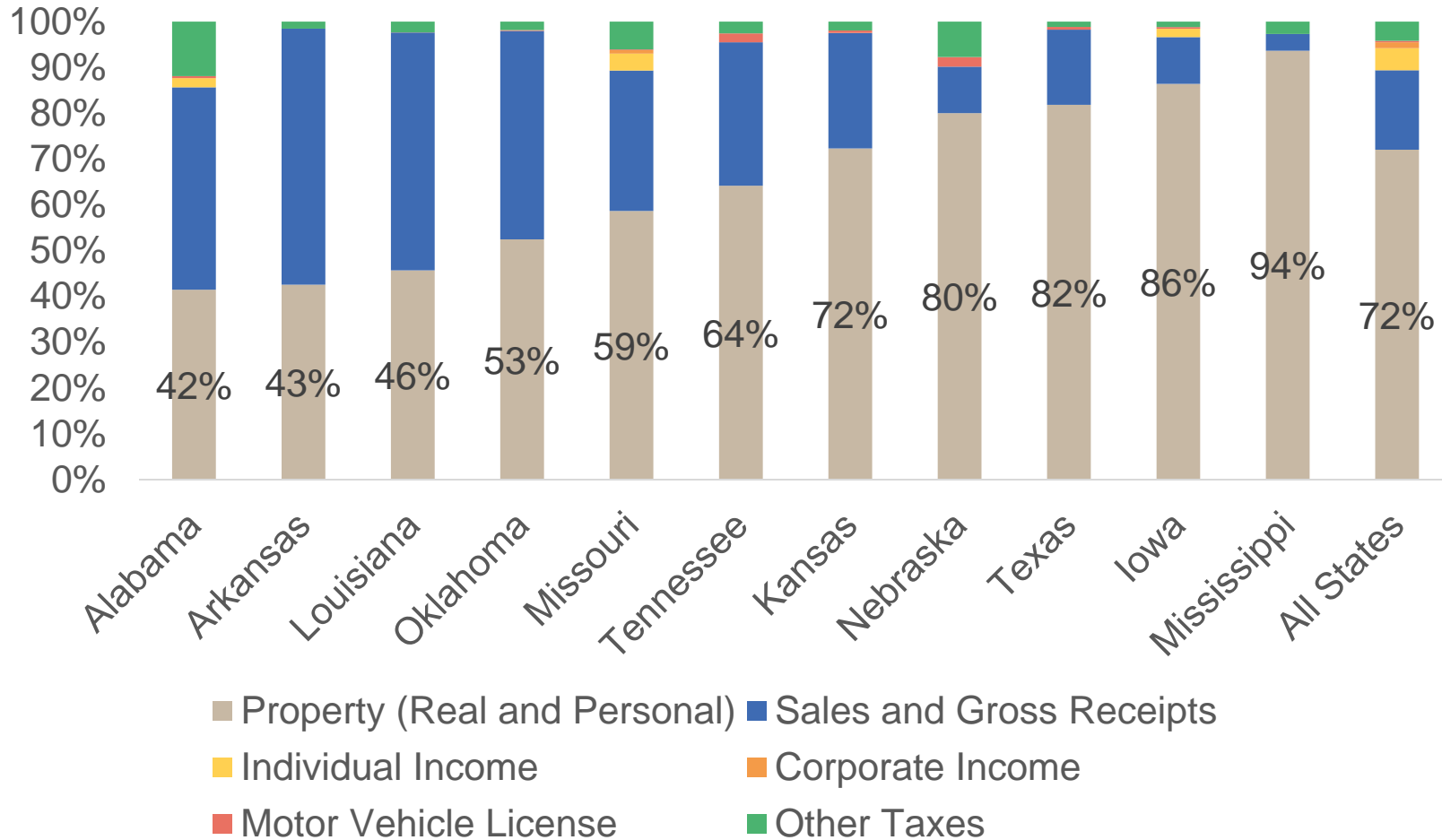
## Property Tax Weaknesses

- Ability to pay can be an issue, particularly for property-rich, cash-poor taxpayers.
  - This creates political pressure on states to limit growth and/or provide forms of property tax relief.
  - Can also be a barrier to entry for some potential homeowners.
- Property taxes are generally due in large lump sums, which can create both animosity among taxpayers and cash flow issues.
  - This is not often the case for other taxes, which are paid in smaller increments over the course of the year.
- Property taxes are regressive by nature.
  - Higher income households generally pay a smaller percentage of their income in property taxes than lower income households.





# Property Tax a Key Revenue Source for Local Governments

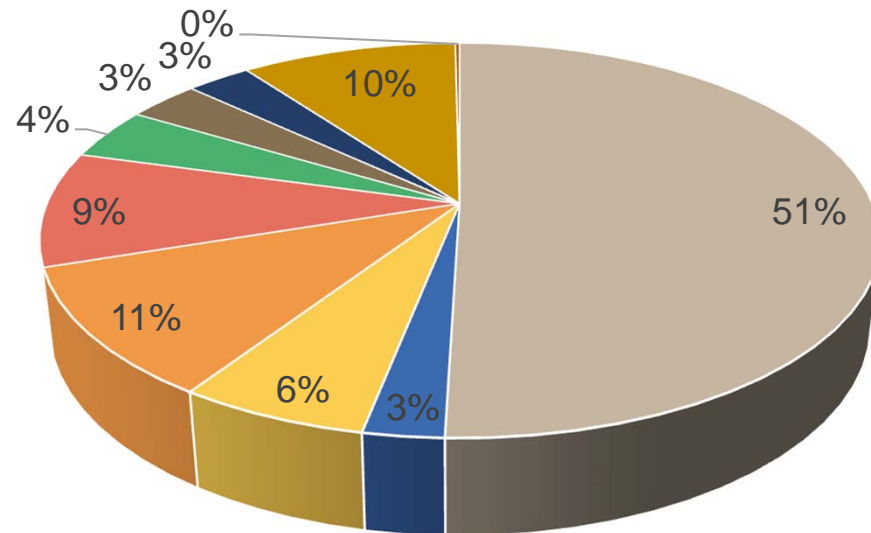


Source: U.S. Census Annual Survey of State and Local Government Finances (2015)



## Local Government Expenditures

- Local governments use property tax and other revenues to finance education, roads, hospitals, libraries, public safety and for the general operation of county and city governments.
- In Arkansas, elementary and secondary education account for just over half of all local government spending.



- Education services
- Social services and income maintenance
- Transportation
- Public safety
- Environment and housing
- Governmental administration
- Interest on general debt
- General expenditures n.e.c.
- Utility expenditure
- Insurance trust expenditure

Source: U.S. Census Bureau, 2015 Annual Survey of State and Local Government Finances



# Property Taxes in Arkansas and Comparison to Other States

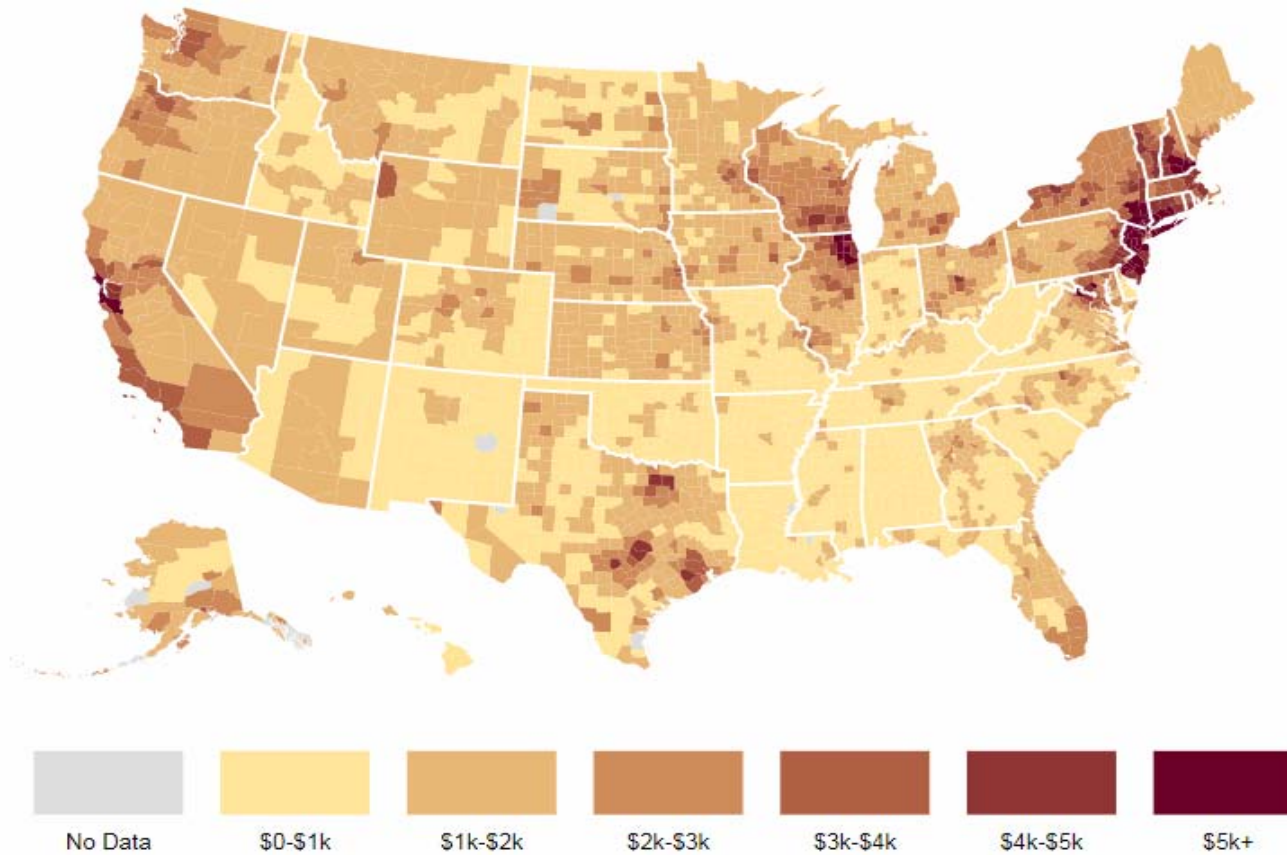


## Property Taxes in Arkansas

- Arkansas property taxes are levied by all of the State's 75 counties, 502 municipalities and 239 school districts.
- Arkansas is one of the least property tax-reliant states in the country.
  - State aid is a much greater contributor to the local general revenue in Arkansas than for the U.S. average.
  - Most cities and counties levy sales taxes, and it makes up a greater share of local revenue than in most states.



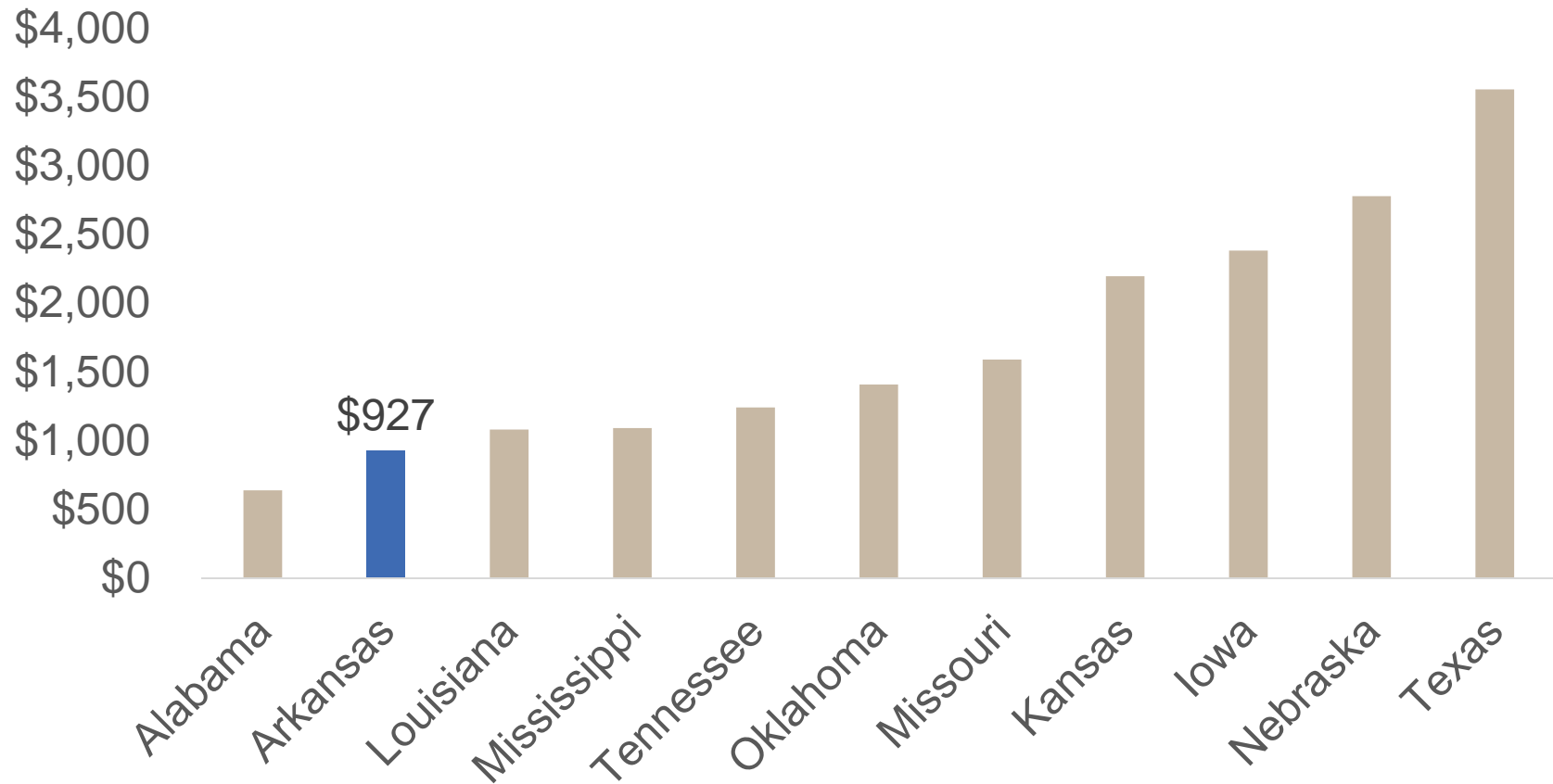
## Median Property Taxes Paid



Source: Tax Foundation – Which Places Pay the Most in Property Taxes? (May 18, 2017)



## Median Real Estate Taxes, Units with a Mortgage (2016)



Source: U.S. Census American Community Survey 1-Year Estimates (2016)



## Property Taxes as a Percentage of Median Home Value

| State       | Median Home Value | Median Real Estate Taxes | % of Median Home Value |
|-------------|-------------------|--------------------------|------------------------|
| Alabama     | \$153,900         | \$639                    | 0.4%                   |
| Louisiana   | \$173,200         | \$1,081                  | 0.6%                   |
| Arkansas    | \$139,700         | \$927                    | 0.7%                   |
| Tennessee   | \$166,700         | \$1,241                  | 0.7%                   |
| Mississippi | \$137,300         | \$1,092                  | 0.8%                   |
| Oklahoma    | \$148,900         | \$1,409                  | 0.9%                   |
| Missouri    | \$161,700         | \$1,590                  | 1.0%                   |
| Kansas      | \$158,700         | \$2,196                  | 1.4%                   |
| Iowa        | \$152,200         | \$2,382                  | 1.6%                   |
| Nebraska    | \$158,000         | \$2,778                  | 1.8%                   |
| Texas       | \$183,300         | \$3,555                  | 1.9%                   |

Source: U.S. Census American Community Survey 1-Year Estimates (2016)



## Property Tax Effective Rate

- Lincoln Institute of Land Policy Annual Survey of States (2017)
  - Calculates the effective tax rate: tax bill as percent of property's market value.
  - 73 large U.S. cities and a rural municipality in each state.
  - Four different property types (homestead, commercial, industrial, apartments).
- Arkansas rankings (1 is highest effective property tax rate):

| City        | Homestead | Commercial | Industrial | Apartments |
|-------------|-----------|------------|------------|------------|
| Little Rock | 37        | 37         | 28         | 30         |
| Pocahontas  | 49        | 47         | 43*        | 45         |

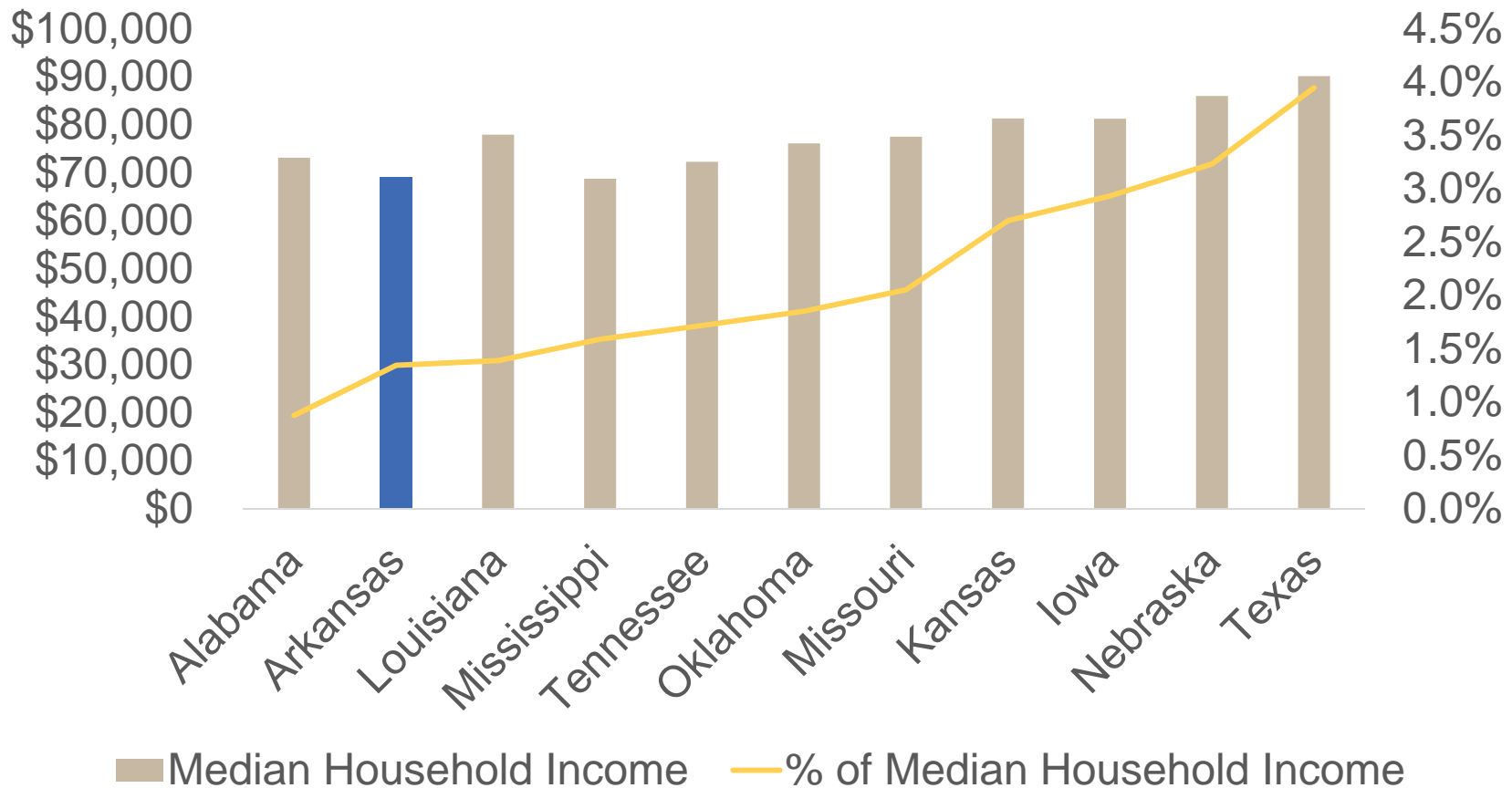
\* Denotes average of industrial properties with land and building value of \$100,000, \$1 million and \$25 million.

Source: Lincoln Institute of Land Policy Annual Survey of States (2017)





## Property Taxes as a Percentage of Income



Source: U.S. Census American Community Survey 1-Year Estimates (2016)



# State-Local Relationships



## State-Local Relationships

- State-local relationships vary from state to state. Generally, cities and other local governments function as political subdivisions of the state.
- To varying degrees nationally, local governments rely on state government for funding support, and their daily operations and financing are subject to state law and regulation.
- Two approaches to state and local government relationships:
  - Dillon's Rule
  - Home Rule
- Thirty-one states, including Arkansas, apply Dillon's Rule or a combination of Dillon's Rule and Home Rule to local jurisdictions.



## The State's Role in Administering Property Taxes

- The State has an interest in ensuring the property assessments and levies align with State constitutional requirements.
  - The Arkansas Constitution dictates that assessments be administered uniformly across the state and that the assessment value be based upon market value, with the exception of agriculture, timber and pasture land.
  - The Constitution also sets caps on property tax rates that can be levied by counties and cities.
  - The State also has the responsibility to ensure that school funding is **adequate and equitable** across school districts by allocating equitable funding per student to each school. The State uses property tax revenues and other state government funds to accomplish this objective.

*Source: University of Arkansas Public Policy Center – Administration of Arkansas' Property Tax*



# Assessments, Reappraisals and Millage Rates



## Property Tax Assessments

- A property tax assessment is a determination of the market value (or other determination of value) of property.
- Property taxes are based on millage rates (one mill = \$0.001) and applied to the assessed value of all real and non-exempt personal property owned by the taxpayer.
- The amount of a property tax bill is determined by two local factors:
  - Local property values determine the assessed value of property.
  - Local millage rates determine the amount paid per \$1,000 of assessed value. One mill = \$1 of tax per \$1,000 of assessed value.
- Individual property tax bills are calculated by multiplying the assessed value of property by the total millage rate for that location.



## Property Tax Assessments

- Each year, every Arkansas taxpayer must report personal property owned to the county assessor for assessment of property taxes between January 1 and May 31 (Ark. Code Ann. § 26-26-1408).
- The county assessor estimates the value of all property in the county.
  - The assessed value of **real property** is calculated as 20 percent of the true market value.
  - Assessed value of **personal property** is 20 percent of the usual selling price at the time of the assessment.



## Reappraisals

- Reappraisal is defined as “estimating the value of all taxable real property within a county as of a given date within a given time frame.”
- Each county must reappraise all real property every three or five years, depending on growth between appraisals (Ark. Code Ann. § 26-26-1902).
- County-wide reappraisals of real property are completed no later than July 1 of the year in which the county reappraisal is scheduled to be completed. Reappraisals are performed by trained real estate appraisers selected by county assessors.
- State funds are used to partially pay the cost of real property reappraisal (up to \$7 per parcel per year).





## State Provisions for Reassessment of Real Estate for Tax Purposes

| State       | Frequency   |
|-------------|---|
| Arkansas    | At least every 3 years; counties that completed reappraisal between 2002 and 2004 have a 5-year reappraisal cycle |
| Alabama     | At least once every 3 years   |
| Iowa        | Every odd-numbered year except for property of public utilities, which is assessed annually                       |
| Kansas      | Dependent on county   |
| Louisiana   | Real property at least every 4 years; annually for personal property  |
| Mississippi | No provision  |
| Missouri    | Every 2 years   |
| Nebraska    | Every year  |
| Oklahoma    | Every 4 years   |
| Tennessee   | Every 6 years   |
| Texas       | At least every 3 years  |

Source: Tax Foundation – State Provisions for Property Reassessment (April 2010)



## Millage Rates

- There is a maximum constitutional limit on the number of mills that can be levied by cities and counties.
  
- Counties can levy up to 21 mills:
  - 5 mills for general government
  - 5 mills for bonded indebtedness
  - 5 mills for library maintenance and operation
  - 3 mills for library capital improvements and construction
  - 3 mills for roads
  
- Cities can levy up to 20 mills:
  - 5 mills for general government
  - 5 mills for bonded indebtedness
  - 5 mills for library maintenance and operation
  - 3 mills for library capital improvements and construction
  - 1 mill for police pension
  - 1 mill for firemen's pension

Source: University of Arkansas Public Policy Center – Administration of Arkansas' Property Tax



## Millage Rates

- There is no maximum limit on the number of mills that can be levied by school districts.
  - However, school districts must levy a minimum tax of 25 mills on real and personal property (Amendment 74).
  - All school district millage changes must be approved by voters.
- Millage rates for school districts range from 27.3 mills in the DeQueen School District (Sevier County) to 49 mills in the Fouke School District (Miller County).
- The average mills levied by school districts is 37.9, while the median is 38.1.



## Variation in Average Millage Rates by School District

| School District               | School | Co. General | Co./City Roads | City General | Other | Total |
|-------------------------------|--------|-------------|----------------|--------------|-------|-------|
| <b>Lowest Millage Rates:</b>  |        |             |                |              |       |       |
| Pocahontas                    | 29.37  | 2.50        | 1.00           | 1.70         | 2.40  | 36.97 |
| Highland                      | 30.00  | 3.05        | 1.80           | 2.00         | 1.00  | 37.85 |
| Mountain View                 | 28.91  | 4.00        | 2.30           | 1.80         | 1.00  | 38.01 |
| West Memphis                  | 29.00  | 0.00        | 1.00           | 2.00         | 6.20  | 38.20 |
| Fountain Lake                 | 34.80  | 1.20        | 0.00           | 0.00         | 2.40  | 38.40 |
| <b>Highest Millage Rates:</b> |        |             |                |              |       |       |
| Jacksonville/N. Pulaski       | 48.30  | 5.00        | 2.90           | 0.00         | 5.20  | 61.40 |
| Bentonville                   | 46.60  | 5.00        | 1.90           | 4.90         | 3.30  | 61.70 |
| Genoa Central                 | 47.00  | 5.00        | 0.50           | 5.00         | 6.30  | 63.80 |
| North Little Rock             | 48.30  | 5.00        | 2.90           | 5.00         | 7.20  | 68.40 |
| Little Rock                   | 46.40  | 5.00        | 2.90           | 5.00         | 12.30 | 71.60 |
| <b>Average</b>                | 37.94  | 3.84        | 2.16           | 3.38         | 2.08  | 49.40 |
| <b>Median</b>                 | 38.05  | 4.40        | 2.50           | 4.00         | 1.80  | 50.75 |

\*County general maximum = 5.00

\*\*County roads maximum = 3.00, but split 50/50 with city in incorporated areas unless designation by special legislation

\*\*\*Other includes hospitals, libraries, fire and police pensions, community colleges, etc.



# Key Property Tax Issues



# Education Funding

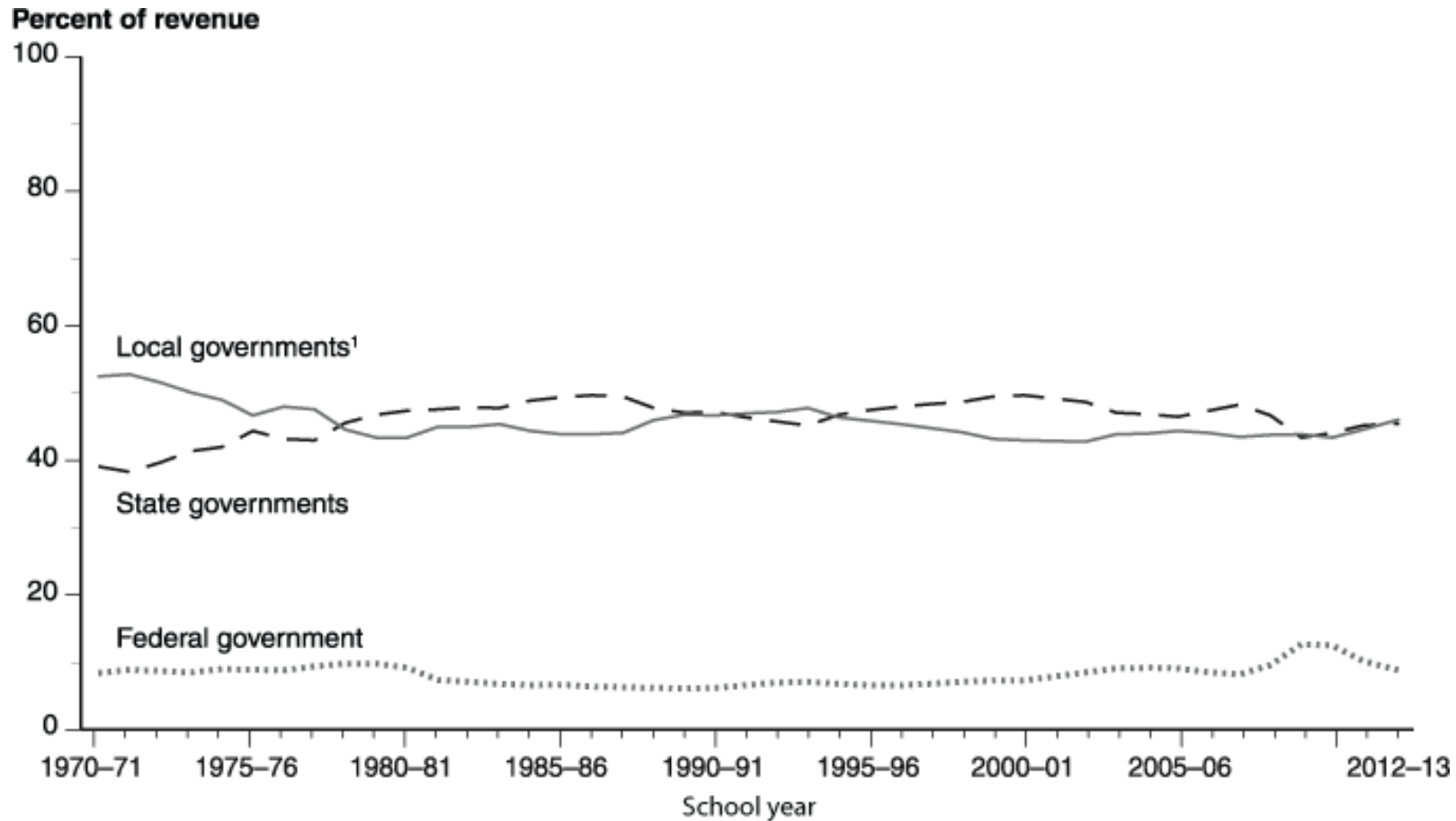


## Education Funding

- *San Antonio School District v. Rodriguez* (1973): U.S. Supreme Court ruled that education is “not among the rights afforded explicit protection under our Federal Constitution” but that “no other state function is so uniformly recognized as an essential element of our society’s well-being.”
  - Case effectively removed the constitutional burden for providing public education away from the federal government and placed it on the states.
- States today collectively provide the largest share of funding for public education.
  - Approximately 92 percent of funds for elementary and secondary schools come from non-federal sources.



## Public School Revenues by Source, 1970-71 to 2012-13

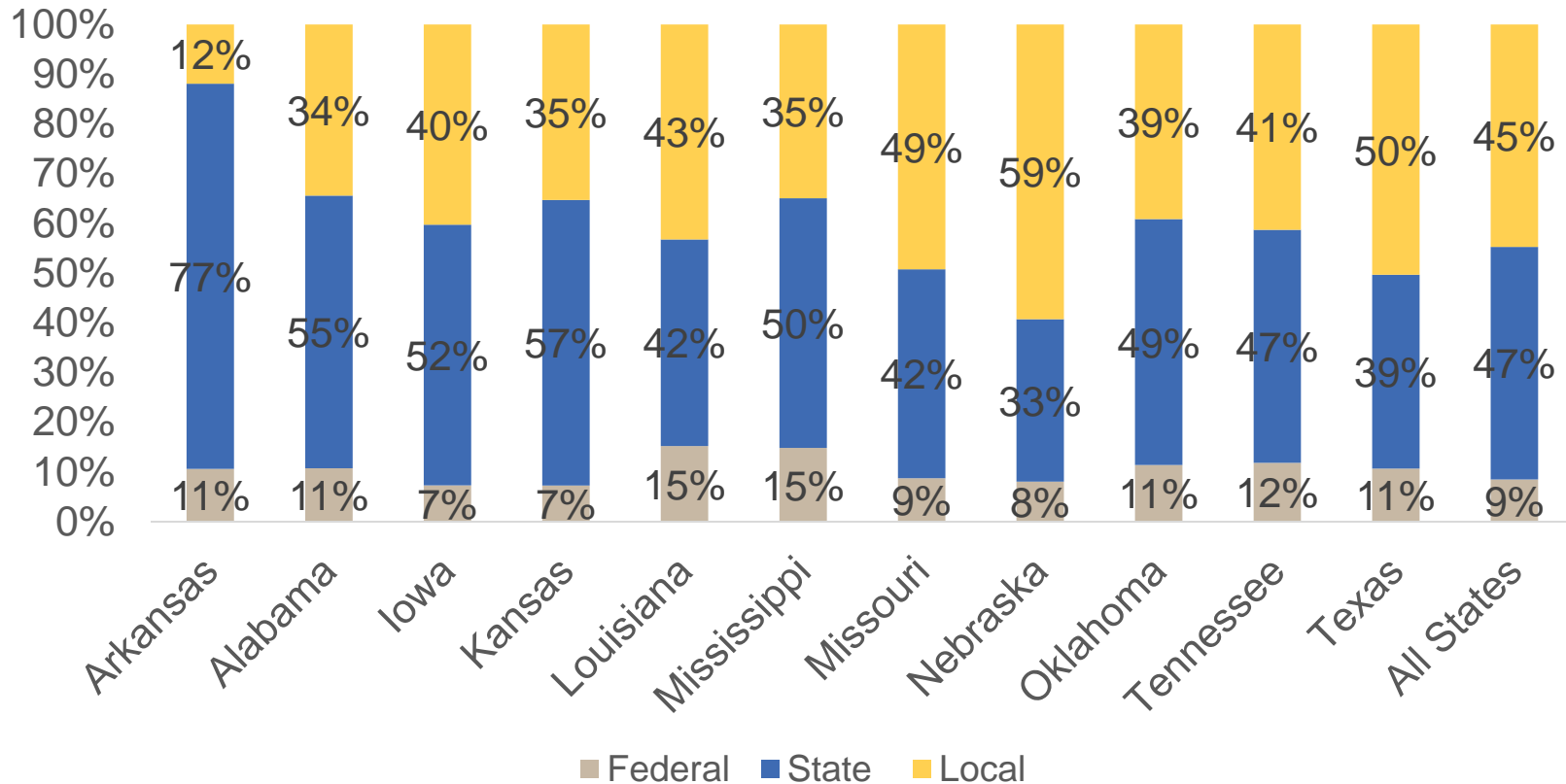


Source: National Center for Education Statistics Digest of Education Statistics (2015)





## Elementary-Secondary School System Revenues, 2014

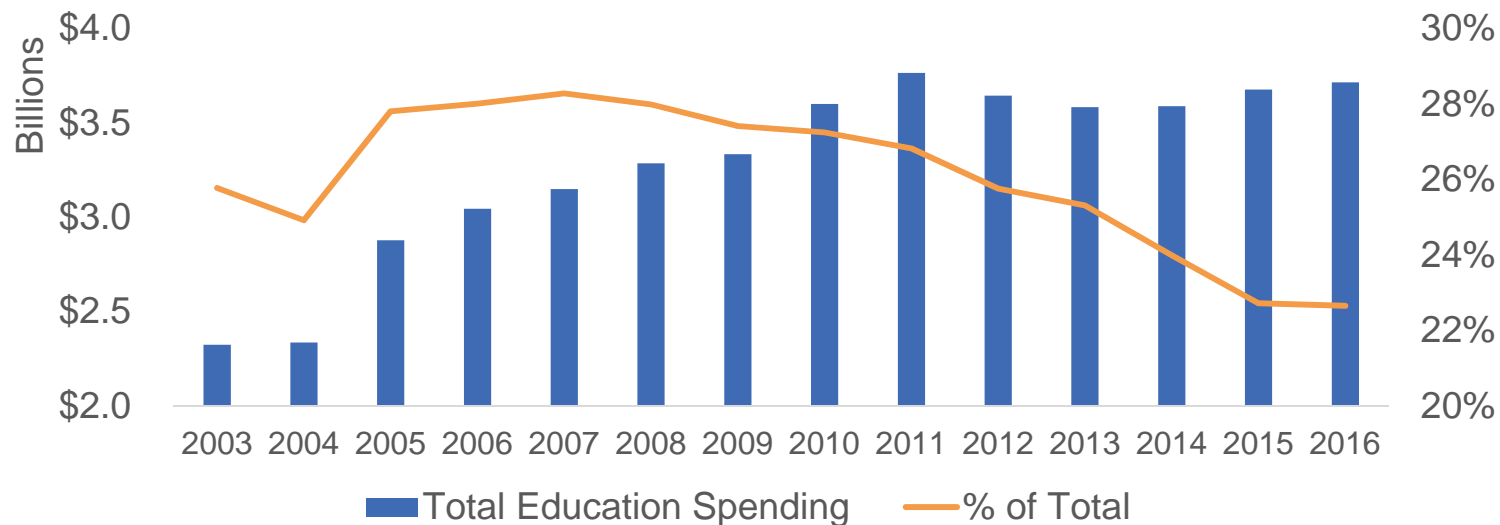


Source: U.S. Census Summary of Public Elementary-Secondary School System Finances by State, Fiscal Year 2014



## State Funding for K-12 Education

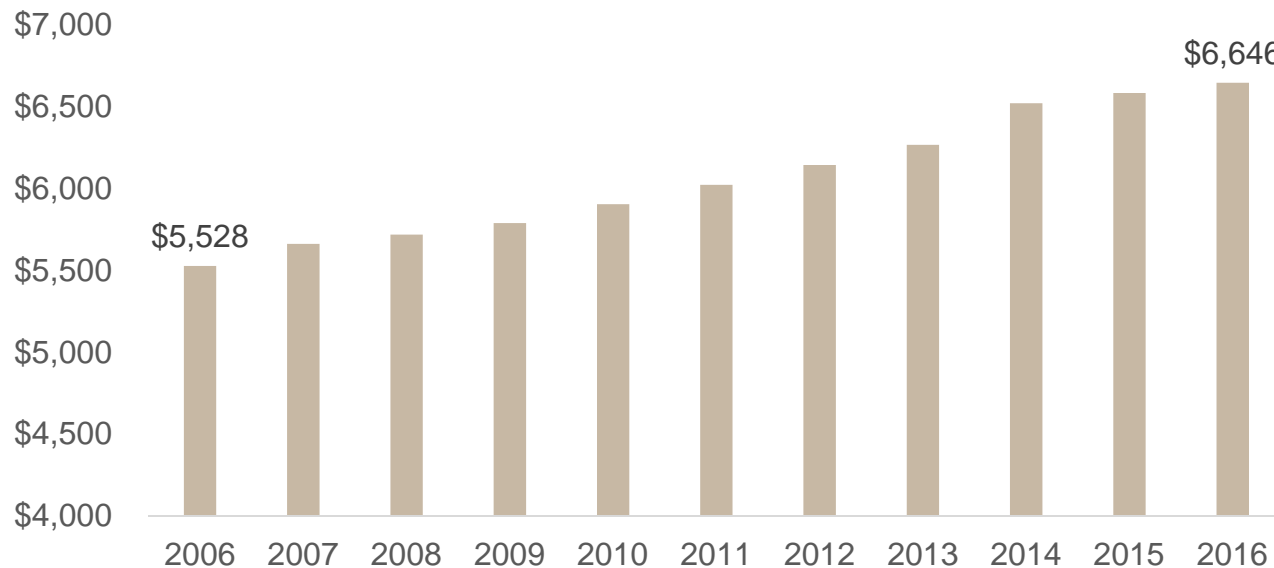
- States fund public education by either (1) providing a school district/charter school with an amount of funding per pupil, or (2) funding a number of positions per school.
- 42 states (including Arkansas) fund schools based on dollar amounts per pupil, while seven fund based on the number of positions.
- While total Arkansas General Fund education spending has increased over time, the share of total general fund spending on education has decreased.





## Arkansas Foundation Aid

- Arkansas is a foundation funding formula state – school district property tax revenue (from 25 mills levy) raises differing amounts per district and the State fills in the balance to meet a funding level per ADM (average daily membership) that is set by the Legislature
- Foundation aid per student increased from \$5,528 in 2006 to \$6,646 in 2016.





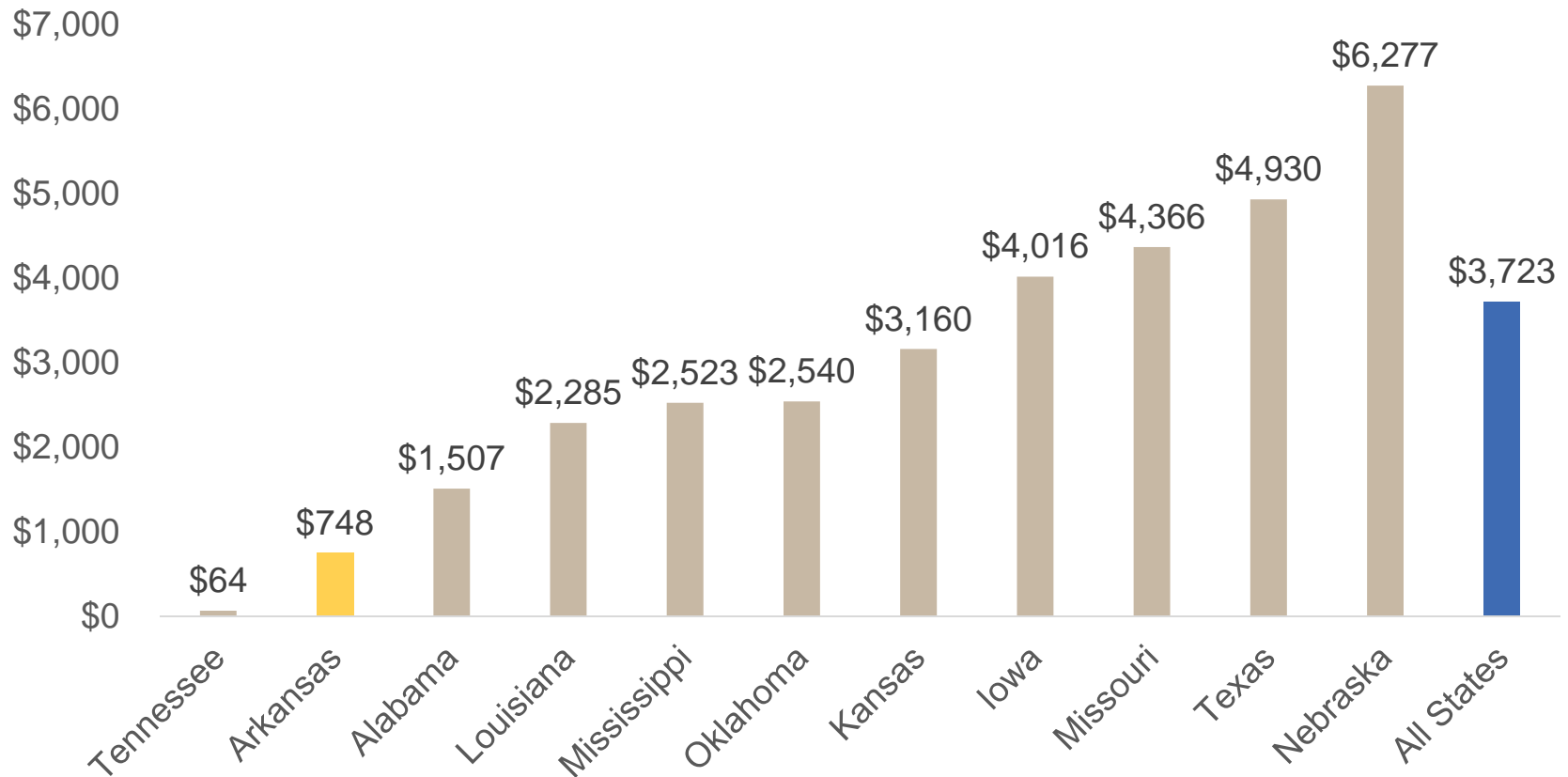
## ***Lake View School District No. 25 v. Huckabee***

- 1992: Lake View School District files suit alleging unconstitutional disparities in public school funding for wealthy and low-income school districts.
- 1994: Lower-court judge found school funding system unconstitutionally inequitable. In response, Arkansas legislature took a number of actions, including increasing school aid and requiring that each school district levy at least 25 mills on the property tax.
- 2001: Despite these changes, system was again found to be inequitable and inadequate and in 2002, ruling was upheld by Supreme Court.
- 2003: Sales and use tax rate increased by .875 percent effective March 1, 2004. Additionally, some services were subjected to taxation for the first time, and the corporate franchise tax was increased.
- 2007: Supreme Court declared public school funding system constitutional.

*Source: Laure Choate – Lake View School District No. 25 v. Huckabee via Lincoln Institute of Land Policy – Significant Features of the Property Tax*



## Local Sources: Property Taxes per Student, 2014



Source: U.S. Census Summary of Public Elementary-Secondary School System Finances by State, Fiscal Year 2014



# Property Tax Exemptions



## Charitable Exemptions

- The Arkansas Constitution mandates charitable exemptions, including churches, cemeteries, schools and libraries.
- This can be problematic for local governments that rely significantly upon property taxes as a key source of revenue. Additionally, these nonprofits consume public services, such as police protection and roads.
- In recent history, many localities have considered ways to raise revenue from tax-exempt nonprofits, including payments in lieu of taxes (PILOTs). PILOTs are voluntary payments made by tax-exempt private nonprofits as a substitute for property taxes.
- Relative to benchmark states, Arkansas is one of five states whose constitution mandates charitable exemptions. Five others authorize the legislature to give charitable exemptions, while only Iowa's does not address taxes or exemptions for charities.



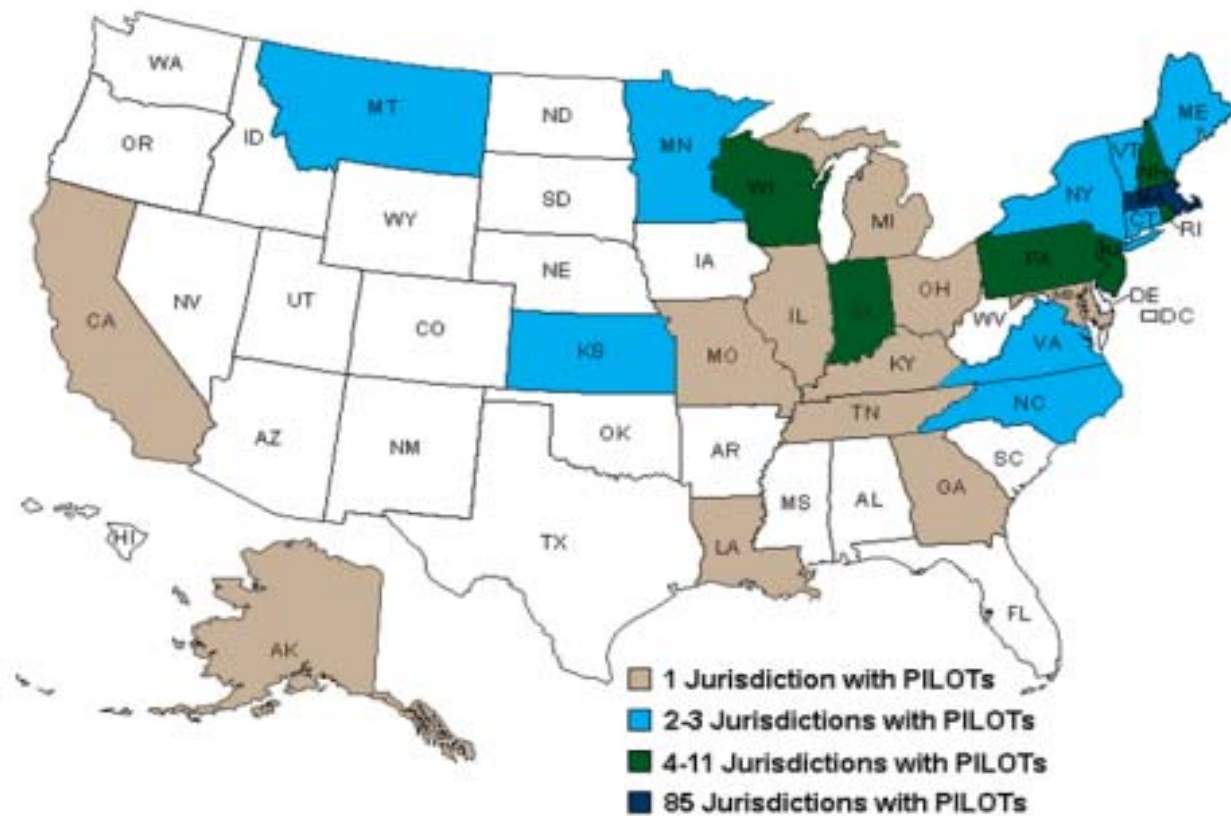
## Charitable Tax Exemptions in State Constitutions

| State       | Constitutional Provision   |
|-------------|--|
| Alabama     | State constitution mandates charitable exemption                       |
| Arkansas    | State constitution mandates charitable exemption                       |
| Kansas      | State constitution mandates charitable exemption                       |
| Louisiana   | State constitution mandates charitable exemption                       |
| Oklahoma    | State constitution mandates charitable exemption                       |
| Iowa        | State constitution does not address taxes or exemption                 |
| Mississippi | State constitution authorizes legislature to give charitable exemption |
| Missouri    | State constitution authorizes legislature to give charitable exemption |
| Nebraska    | State constitution authorizes legislature to give charitable exemption |
| Tennessee   | State constitution authorizes legislature to give charitable exemption |
| Texas       | State constitution authorizes legislature to give charitable exemption |





## Jurisdictions with Charitable PILOTs (2012)



Source: Urban Institute Center on Nonprofits and Philanthropy – *The Charitable Property Tax Exemption and PILOTs (2012)*



# Franchise and Inventory Taxes



## Franchise Taxes

- All companies conducting business in Arkansas are required to annually pay the tax.
- Collections in recent years total between \$20 and \$30 million.
  - The first \$8 million in collections is placed into the State's General Fund
  - The remaining balance is deposited into the Education Adequacy Fund.
- Currently, a total of 16 states (including Arkansas) levy a franchise tax; many (AL, LA, OK, NE, TN) are benchmark states.
- However, many states have begun to phase out the tax in recent years (including MS, MO, KS).



## Arkansas Franchise Tax Rates

| Franchise Tax Type  | Current Rate (2015 Reporting Year)                   |
|---|--|
| Corporation/Bank with Stock   | 0.3% of the outstanding capital stock; \$150 minimum |
| Corporation/Bank without Stock  | \$300  |
| Limited Liability Company   | \$150  |
| Insurance Corporation Legal Reserve Mutual, Assets Less than \$100 Million    | \$300  |
| Insurance Corporation Legal Reserve Mutual, Assets Greater than \$100 Million | \$400  |
| Insurance Company Outstanding Capital Stock Less than \$500,000               | \$300  |
| Insurance Company Outstanding Capital Stock Greater than \$500,000            | \$400  |
| Mortgage Loan Corporation   | 0.3% of the outstanding capital stock; \$300 minimum |
| Mutual Assessment Insurance Corporation                                       | \$300  |

Source: Arkansas Secretary of State – Franchise Tax.





## Inventory Taxes

- Considered burdensome to retail stores and other businesses that store large amounts of merchandise.
- Like real and personal property taxes, levied at the local level (can be difficult to estimate).
- Assessed value of inventory in Arkansas in 2016 was \$1.4 billion – generating an estimated \$34.5 million for school districts and \$29.8 million for counties.
- Since 1991 (and changing over time), Louisiana has offered a state refund of local inventory tax paid by manufacturers, distributors and retailers in an effort to make the state more business-friendly while keeping local revenues intact.



# **Property Taxes and Public Utilities**



## Unitary Tax Assessments for Public Utilities

- Some types of businesses cannot be readily separated for property tax purposes. These are assessed as a single unit and then the tax base attributable to each tax jurisdiction is determined.
- Unit valuations of public utilities attempt to value the combination of properties that is likely to sell in the market as a single operating unit.
- The Tax Division of the Arkansas Public Service Commission determines property tax assessments on public utilities and carriers, which includes telecommunications providers, electric, gas and water utilities, pipeline companies, railroads, airlines, barge lines, cable television providers, motor carriers and bus lines.
- Market value of utilities and carriers was \$22.4 billion in 2016 – assessed value of \$4.5 billion and property tax of \$211 million.



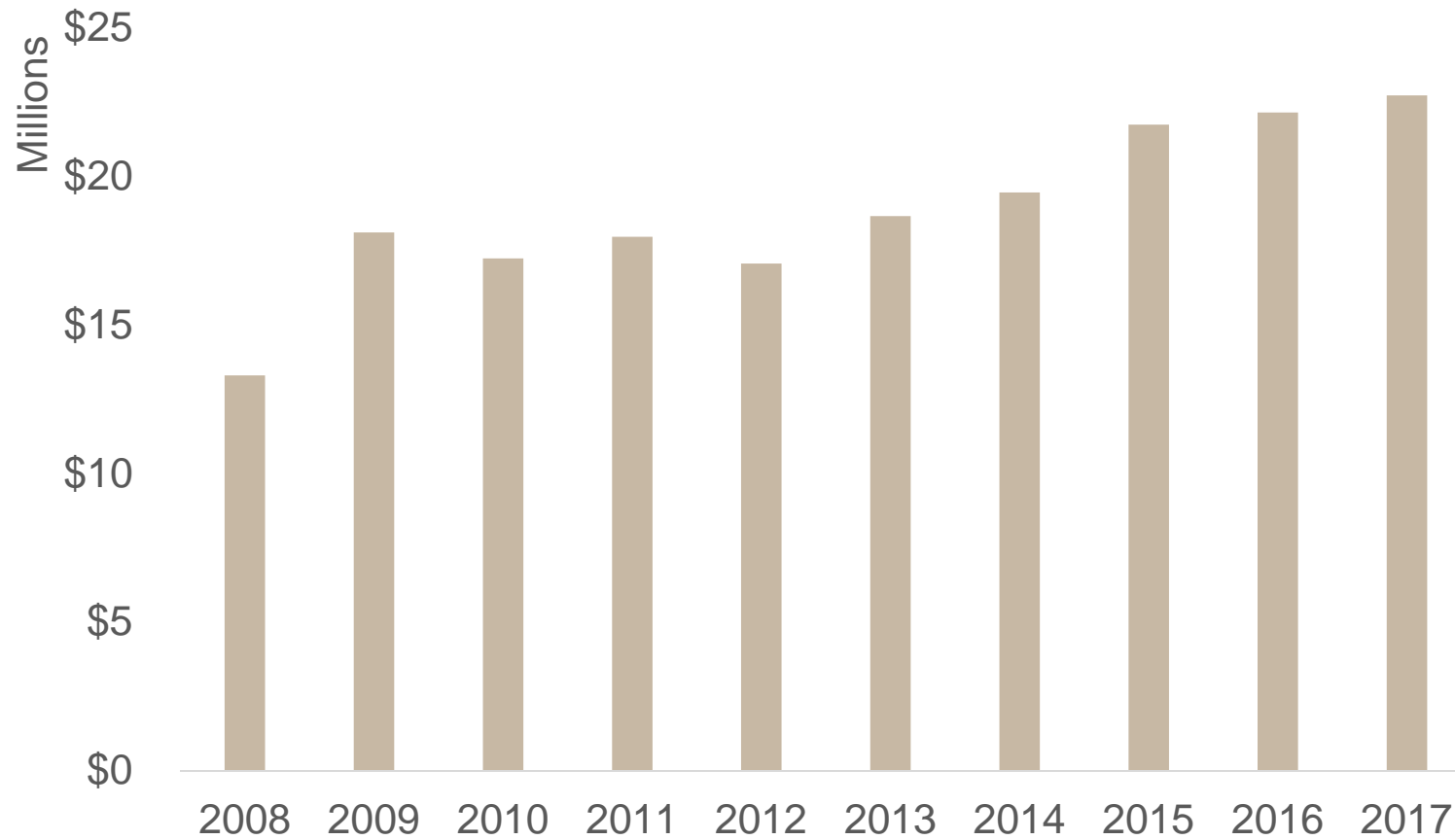


## Property Tax Assessments for Public Utilities

- During 2016, the Tax Division valued and assessed the real and personal property of:
  - 296 telecommunications companies and their operating subsidiaries
  - 25 cable television companies and their operating subsidiaries
  - 33 electric companies and cooperatives
  - 17 gas companies
  - 11 pipeline companies
  - 3 water companies
  - 25 railroads
  - 387 private car companies
  - 19 airlines
  - 52 barge lines
  - 31,454 motor carriers



## Unitary Tax Revenues, 2008-2017



Source: DFA Revenue Division, Miscellaneous Tax Section



# Property Tax-Based Incentives



## Tax Increment Financing (TIF)

- Tax Increment Finance originated in California in 1952.
- In the U.S., TIF is governed by state law, but implemented by cities, counties, economic development authorities or other municipal governments.
- Today, 49 states and the District of Columbia have tax increment-type statutes with hundreds of projects financed annually.
- TIF provides a means to access new tax revenues to support the creation of these same new revenues, and more. Public investment increases private property values, which increases property tax revenues.
- In some states, over-use of TIF has become a state funding issue (primarily because of school funding formulas).



## Arkansas Use of Tax Increment Financing

- Arkansas Constitutional Amendment 78 of 2000 granted cities and counties the authority to form TIF districts, and to issue bonds in order to finance redevelopment projects.
- A “redevelopment project” is defined in Amendment 78 as “any project for eliminating or preventing the development or spread of slums or blighted, deteriorated or deteriorating areas, for discouraging the loss of commerce, industry or employment, or for increasing employment.”
- Under Amendment 78, all or a portion of ad valorem taxes levied by taxing units with property located in the TIF district may be diverted to the TIF district to pay for redevelopment bonds.

*Source: Quattlebaum, Grooms and Tull - An Overview of Arkansas Tax Increment Financing District Law*



## Use of Other Property Tax-Based Incentives

- The Arkansas Constitution prohibits local governments from abating or waiving property tax to induce industry to locate within an Arkansas county.
- The State does, however, allow for PILOT programs, which effectively provide the benefits of partial property tax abatements through the lease or sale of tax-exempt city or county property to a for-profit entity.
  - Under a PILOT agreement, the for-profit entity that leases or purchases tax exempt property agrees to pay at least 35 percent of the aggregate amount of property taxes that would be paid if the property were on the tax rolls, with certain exceptions.



# Real Estate Transfer Taxes



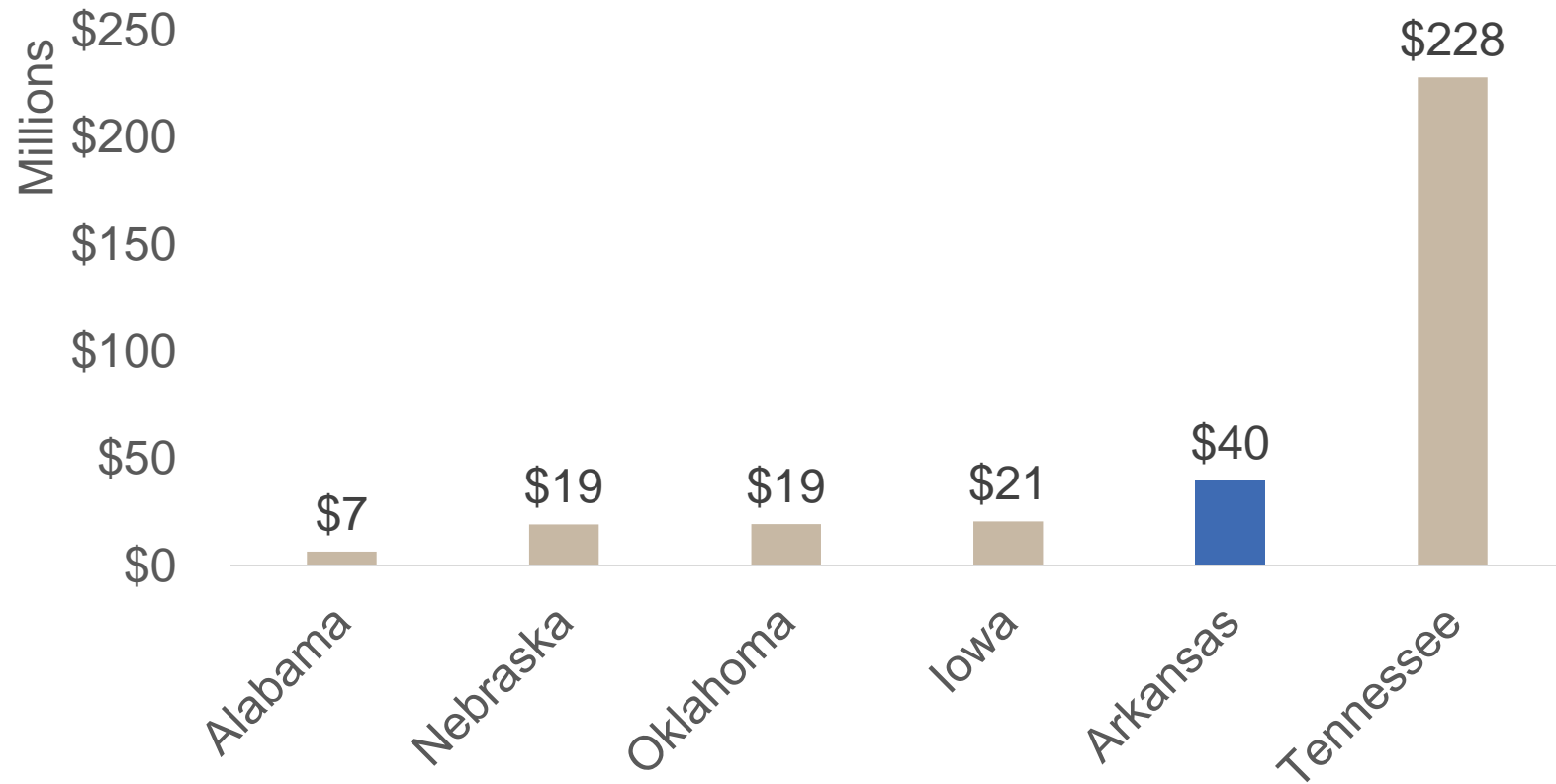
## Real Estate Transfer Taxes

- Taxes imposed by states, counties and municipalities on the transfer of the title of real property within the jurisdiction.
- Also referred to as:
  - Real estate conveyance taxes
  - Mortgage transfer taxes
  - Documentary stamp taxes
  - Property transfer taxes
- Real estate transfer taxes can be used for specific purposes, such as affordable housing and open space development.





## Real Estate Transfer Tax Revenues



Source: Respective State Tax Commission and Revenue Department reports



## Real Estate Transfer Taxes in Arkansas

- Tax is levied on each deed, instrument, or writing by which any lands, tenements, or other realty sold shall be granted, assigned, transferred, or otherwise conveyed.
- The tax rate is \$3.30 per \$1,000 of actual consideration on transactions that exceed \$100.
- The tax generated \$32.5 million in revenues in 2015, growing to \$39.6 million in 2017.



## Real Estate Transfer Taxes

| State       | Tax Description   | Rate        |
|-------------|---|-------------|
| Tennessee   | Transfer tax: \$0.37/\$100  | 0.37%       |
|             | Mortgage tax: \$0.115/\$100   | 0.12%       |
|             | For any instrument that requires a receipt by the county of the state transfer tax or mortgage tax, the county collects a \$1.00 fee.       |             |
| Arkansas    | State transfer tax: \$3.30/\$1,000 (composed of two parts: real property transfer tax - \$1.10 plus an additional tax (currently at \$2.20) | 0.33%       |
| Nebraska    | Stamp tax rate: \$2.25/\$1,000  | 0.23%       |
| Iowa        | State real estate transfer tax: \$0.80/\$500  | 0.16%       |
| Alabama     | Deeds: \$0.50/\$500   | 0.10%       |
|             | Mortgages: \$0.15/\$100   | 0.15%       |
| Kansas      | Mortgage registration tax: 0.1%   | 0.10%       |
| Oklahoma    | Documentary stamp tax: \$0.75/\$500   | 0.15%       |
|             | Mortgage registration tax: \$0.02-\$1.10/\$100, based on term of mortgage   | 0.02%-0.10% |
| Louisiana   | None (State Constitution prohibits the tax)   | N/A         |
| Mississippi | None  | N/A         |
| Missouri    | None (State Constitution prohibits the tax)   | N/A         |
| Texas       | None  | N/A         |



# **Voluntary Property Taxes**



## Study: Voluntary Property Taxes in Arkansas

- Arkansas counties and cities are allowed by statute to collect a voluntary property tax if the tax is used for a public entity, for a public service, and for the general public (Ark. Code Ann. § 26-25-106).
- Voluntary tax can be placed on real property and/or personal property.
- Once the voluntary property tax has been approved by a governing body, residents have an option to pay the amount of their property tax with or without the voluntary tax.



## Study: Voluntary Property Taxes in Arkansas

- Study out of University of Central Arkansas identified 58 different voluntary taxes used in 27 counties and 17 cities throughout the state.
- Purposes vary, including soil conservation, recycling programs, voluntary fire protection, animal welfare, weather warning systems and historic preservation.
  - For counties, soil conservation most common (18 of 27 counties).
  - For cities, volunteer fire department most common (9 of 17 cities).
- Using revenue and expenditure data for six programs in five counties, study found the tax to be a significant revenue source for several county programs.



# Property Tax Relief



## Property Tax Relief Strategies

- Property tax relief strategies can generally be grouped into three categories:
  - Property tax deductions and credits.
  - Limits on the growth of property valuations or growth in property taxes.
  - Other forms of assistance (such as tax deferments).
- The most common methods are forms of direct payments to property taxpayers or specific reductions to property tax bills.
- Refunds and circuit-breaker credits are ways to directly reduce a taxpayer's tax bill.
- By contrast, a property tax assessment cap or adjustment reduces the amount that property taxes may increase from year to year.
- Deferments do not reduce the overall tax owed, but instead allow the taxpayer to adjust the actual payment schedule to spread payments out over a longer period.





## Property Tax Deductions and Credits

- **Circuit Breakers** provide a reduction by preventing property taxes from going above a certain percentage of the taxpayer's annual income. In effect, these (nearly always) state-administered programs “shut off” property taxes once they exceed a certain share of a family's income.
- A majority of states provide some form of a circuit breaker, but who qualifies and to what extent relief is provided varies widely.
- Advantages: Can be effective at limiting overall property tax burden; may apply to all property taxes.
- Disadvantages: Plan design – some overly restrictive, others inadequate at providing relief; possible impact on state and local finances.



## Property Tax Deductions and Credits

- **Homestead programs** are widely used for owner-occupied residential property.
  - **Homestead credit** programs provide tax credits directly to taxpayers. Qualifying homeowners receive a discount on their tax bills or a rebate equal to a certain percentage of taxes due or a fixed amount.
  - **Homestead exemption** programs reduce property taxes by exempting a certain amount of a home's value from taxation. The value of the reduction depends on the exemption amount and the assessment level, or the portion of a property's value that is subject to the local government's tax rate.
- Refund programs are similar to the personal income tax refunds - property taxpayer first pays the property tax owed and, at some point in the future, receives a refund of some portion of taxes paid (based on program characteristics).

Source: State of Connecticut – State Homestead Exemption and Credit Programs (2013)



## Limits on Growth: Caps and Adjustments

- States curtail the ability of local governments to increase property taxes through three common mechanisms: limitations on increases in tax rates, assessed values, and tax levies.
- Most states have one or more limits in place.
  - Levy limits: 35 states
  - Rate limits: 35 states
  - Assessment limits: 18 states
  - Revenue/expenditure limits: 10 states



## Other Forms of Assistance: Flexibility and Deferral

- **Payment flexibility** takes many forms – some governments allow regularly payment plans; others allow payment by credit card. Some provide taxpayers with the opportunity to customize a plan. Becoming more popular, as there is generally little disadvantage.
- **Payment deferral plans** allow eligible taxpayers to defer all or a part of their property tax payment for some length of time. Generally state programs. While originally acting as something of a reverse mortgage for older homeowners, in some cases have been extended to other eligible populations.
- Advantages: provide an alternative to homeowners from being forced from their homes – particularly for older individuals.
- Disadvantages: generally a form of a loan – with interest charged that will be due upon property sale or transfer.



## Amendment 79: Arkansas Property Tax Relief

- Passed on General Election Ballot in November 2000
- Real property reappraisal: 10 percent maximum increase on first assessment after reappraisal for non-homestead real property; 5 percent maximum on homestead property (does not apply to new construction or substantial improvements).
- Homestead assessed values frozen if owner is 65 years or older, or is disabled per Ark. Code Ann. § 26-26-1120.
- Annual Homestead Credit – increased to \$350 by Act 655. § 4 of 2009.
- Personal property may not be assessed at higher millage rate than real property.

Source: *Arkansas Property Tax Overview*, Association of Arkansas Counties



## How Do States Limit Property Taxes Imposed by Local Governments?

| State       | Property Tax Rate Limits | Assessment Limits | Revenue Rollbacks | Expenditure Limits | Property Tax Freeze |
|-------------|--------------------------|-------------------|-------------------|--------------------|---------------------|
| Arkansas    | Yes                      | Yes               | Yes               |                    |                     |
| Alabama     | Yes                      | Yes               |                   |                    |                     |
| Iowa        | Yes                      | Yes               |                   | Yes                |                     |
| Kansas      | Yes                      |                   | Yes               | Yes                |                     |
| Louisiana   | Yes                      |                   | Yes               |                    |                     |
| Mississippi | Yes                      |                   |                   |                    |                     |
| Missouri    | Yes                      |                   | Yes               |                    |                     |
| Nebraska    | Yes                      |                   |                   | Yes                |                     |
| Oklahoma    | Yes                      | Yes               |                   |                    | Yes                 |
| Tennessee   |                          |                   |                   |                    | Local Option        |
| Texas       | Yes                      | Yes               | Yes               |                    | School Districts    |

Source: National Association of Counties – Property Taxes: A Look at Exemptions, Tax Limits and Assessment Cycles



# Property Tax Reform



## Other States' Property Tax Reform - 2016

- **Alabama** amended its state constitution to give municipalities and counties increased discretion over the tax-increment districts developed within a Major 21<sup>st</sup> Century Manufacturing Zone.
- **Kansas** accelerated the effective date of property “tax-lid” from 2018 to 2017. This measure requires city and county governments to hold a public vote if they want to raise spending by more than the adjusted Consumer Price Index set by the state. It is now scheduled to take effect in the summer of 2017.
- **Louisiana** approved an amendment to the state constitution during the 2016 general election authorizing an exemption from ad valorem property tax for the total assessed value of the homestead for a surviving partner of a member of the armed forces who died while in active duty or of a state police, law enforcement or fire protection officers who died while performing their duties.
- **Nebraska** increased the property tax credit appropriation, resulting in revenue reduction of \$20 million in FY2018.

Source: NCSL *State Tax Actions: 2016*





## Case Study: Iowa Property Tax Relief

- In 2013, assessments for commercial and industrial property were 'rolled back' to 95 percent of assessed value (2013) and 90 percent for 2014 and subsequent years.
- The maximum annual taxable value growth percentage was also reduced from 4% to 3% for residential and agricultural property.
- State officials projected commercial taxpayers would save \$218 million in 2017.
- Lawmakers also promised to fully reimburse local governments for the revenues they stood to lose.
- In 3 years, the State has reimbursed Iowa cities, counties and school districts \$391 million – but that amount has not kept pace with the reduction in property tax revenue brought on by the changes (difference of \$107.2 million).
- Businesses that were expected to benefit the most through lower taxes have saved about half as much as the state projected in 2013, according to the Iowa Legislative Services Agency.



## Pennsylvania – Ballot Issue

- In November 2017, voters approved a constitutional amendment on property taxes; amendment permits legislation that could exempt homeowners from paying property taxes.
  - If legislation passed, taxing authorities (counties, school districts and municipalities) could choose to exempt taxes for up to 100 percent of the assessed value for primary residences.
  - This is unlikely to happen, unless other sources of revenue become available to replace property taxes – including income and sales taxes – and would require more legislation.
- Substituting sales and income taxes for property taxes (as with any property tax reform effort) would create winners and losers.



# **Current Issues and Trends Affecting Property Taxes**



## Proposed Federal Changes

- The Revenue Act of 1913, which introduced the federal income tax, states that “all national, state, county, school, and municipal taxes paid within the year, not including those assessed against local benefits,” can be deducted.
- The Revenue Act of 1964 later named specific state and local taxes that could be deducted, which included: real and personal property, income, and general sales taxes.
- As part of its tax reform efforts, Congress is evaluating whether to eliminate the ability for taxpayers to deduct state and local taxes (SALT).
- House bill would repeal SALT deduction for state and local income and sales taxes, but preserve it for property tax up to \$10,000 a year.
- Senate version would repeal the SALT deduction entirely. There are indications this may change.



## SALT Deduction by AR Congressional District, 2015

| Congressional District | # of SALT Deductions | # of Total Tax Filers | % of Tax Units Using SALT Deduction | Total SALT Deductions  | Average SALT Deduction |
|------------------------|----------------------|-----------------------|-------------------------------------|------------------------|------------------------|
| 1 (Eastern AR)         | 54,255               | 288,430               | 18.8%                               | \$389,612,000          | \$7,181                |
| 2 (Central AR)         | 92,640               | 330,250               | 28.1%                               | \$858,452,000          | \$9,267                |
| 3 (Northwestern AR)    | 74,095               | 298,915               | 24.8%                               | \$790,695,500          | \$10,671               |
| 4 (Western AR)         | 54,230               | 297,815               | 18.2%                               | \$383,613,500          | \$7,074                |
| <b>Arkansas Total</b>  | <b>275,220</b>       | <b>1,215,410</b>      | <b>22.6%</b>                        | <b>\$2,422,373,000</b> | <b>\$8,802</b>         |

Source: GFOA – *The Impact of Eliminating the State and Local Tax Deduction*



# Summary



## Property Taxes: National and State Summary

- Property taxes continue to be a primary source of local government revenue across the Country – stable but unpopular.
- States use a variety of mechanisms to deal with this dichotomy – relief, reform, caps, limits on growth.
- Arkansas, in comparison to benchmark states and the nation as a whole, has a lower property tax burden.
- The K-12 education component of property taxes is usually the largest and also the most significant for state share of funding.
- Arkansas has contributed a larger share of the combined funding for K-12 education than most of the benchmark states and the nation as a whole.
- Broad-based property tax relief is an expensive undertaking – targeted relief, caps or limits on growth are more often-used.



## Property Tax Summary (continued)

- Exemptions for non-profits are becoming an ‘area of interest’ in many parts of the country as local governments seek ways to cover the cost of services.
- On the other side of the ‘tax exempt equation’ some states are limiting the ability of local government to provide targeted exemptions (such as TIFs) for economic development purposes.
- Other property-related taxes, such as real estate transfer taxes, franchise and inventory taxes, have been targets for tax reduction or prohibition.
- Overall, there has been a national trend away from property-based taxation toward taxes that are more consumption-based. That trend is likely to continue.





# Questions and Discussion