

November 2020

## HOT TOPIC ALERT

### State and Local Taxation in the Wake of COVID-19



Local governments in all 50 states and the District Columbia impose property taxes to fund education and local services. Taxes are based primarily on a home's value, and state officials and local governments make the final determination of the property tax rate imposed on residential homeowners. In the wake of the COVID-19 crisis the demand for public services has exponentially increased without a corresponding increase in tax revenue, causing state budgets to plummet deep into the red. Despite Congress debating a package of between [\\$1 trillion and \\$3 trillion](#) in additional aid, the actual amount to be received and the rules for spending it are uncertain, sparking discussion amongst states and cities to evaluate increasing taxation to address the economic distress that has harmed small businesses and residents.

In this Hot Topic Alert, we examine the efforts by state and local governments to enact taxes or fees to offset budget deficits in the wake of the COVID-19 Pandemic. We analyze state and local property tax policies, and assess the status of state and city budgets and the housing market in 2020. Also, we provide various current state and local tax proposals designed to circumvent budget shortfalls. In addition, we address the impact of property tax on homeowners and residential real estate. Finally, we review efforts by local REALTOR® organizations to protect homeowners from shouldering too much of the burden of potential tax increases.

## STATE AND LOCAL PROPERTY TAX POLICIES

Governments seek revenue sources by utilizing various mechanisms including sales taxes, impact fees, transfer taxes, estate taxes, excise taxes, transportation (fuel), telecommunications, commercial taxation, and property taxes, when there are budgetary shortfalls. For example, in July, the [District of Columbia Council](#) voted to raise the gas tax and eliminate some tax benefits for businesses to raise \$63 million toward an anticipated \$800 million budget hole. Mayor Muriel Bowser suggested cutting spending to make up the difference, but the Council disagreed and approved a [gas tax](#) increase of 10 cents a gallon, an \$11 million cut to a [tax break for technology companies](#), and a [3% tax on the sales of advertising and personal information](#). In [New York](#), state lawmakers are considering higher income tax brackets for multimillionaires. State Sen. Rachel May, is promoting a bill that would impose new, [higher income tax brackets on the very wealthy](#), and that would raise the rate for those who earn more than \$5 million to 9.32%, individuals who make more than \$10 million to 9.82%, and those earning more than \$100 million to 10.32%.

Municipal governments are also feeling the budgetary pinch. The [Seattle City Council](#) in July passed a tax on businesses that spend at least \$7 million in annual payroll, citing the pandemic. The tax could apply to about 800 businesses and raise more than \$200 million a year toward an estimated \$378 million budget gap.

Although a small revenue source for most state governments, property taxes are a substantial source of revenue for local governments, such as counties, cities, townships, school districts, and special districts. In 2017, state governments collected [\\$16 billion in revenue](#) or 1 percent of their own-source general revenue from levied property taxes in 36 states. In contrast, local governments collected [\\$509 billion from property taxes](#), which equates to almost half of their own-source general revenue.

Property tax rates vary across and within states due to differences in statutory tax rates and the different methods utilized by local governments to compute their real property tax base. Typically, the taxing jurisdiction assesses the real property value by approximating the amount the property would sell for in a prospective transaction. On the other hand, some jurisdictions based the real property value on acquisition value of the property or the on last sale price. Still other jurisdictions assess the income the property could generate.

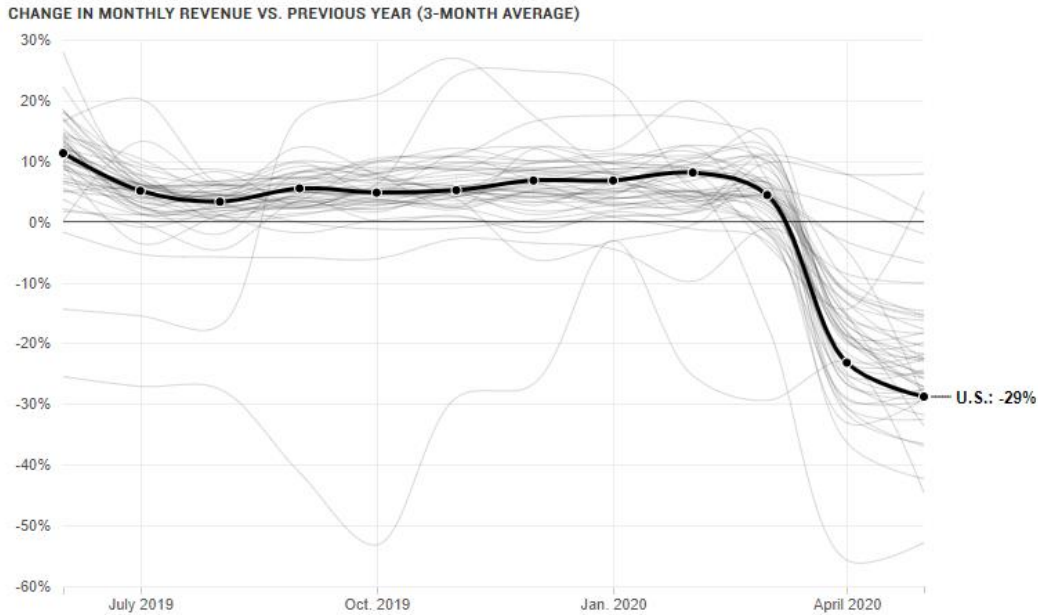
Various jurisdictions tax the complete assessed value of the property, without considering deductions and credits. Other jurisdictions tax a fraction of the property's assessed value. In addition, some jurisdictions may impose a different statutory tax rate for residential and business property. In an attempt to reduce reliance on the property tax as a source of revenue, numerous states have levied limits on property tax revenue by limiting rates or increases in assessed property values. Some property tax schemes also use devices such as deferrals, exemptions, credits, and deductions. Limits on assessments may be offered as an attempt to reduce tax liability, but the result could still be higher taxes for the homeowners the limits were designed to assist. Through removing the link between property values and property taxes, the assessment limits cause significantly [different tax obligations](#) on owners of identical properties.

Generally, [rising property tax bills](#) result from a combination of two factors: (1) shifts in relative property values; and (2) rising local spending. COVID-19 has altered the housing market, created vast unemployment rates, and uncertain commercial outlook. Historically, home values decrease when unemployment rates increase, and, in effect, lower property taxes. However, the economic crisis has also led local governments to increase spending to offset the impact of unemployment and loss of sales tax revenue. In efforts to balance their budgets, cities may seek revenue through increases in taxes or reduce their costs by decreasing program funds.

#### STATUS OF 2020 STATE BUDGETS

Unlike the federal government, 49 states ([Vermont is the exception](#)) and many cities must balance their operating budgets each year. Given the increase in public services spending to assist citizens during the pandemic, cities and states are looking into mechanisms to increase revenue such as increasing property taxes. According to the [Urban Institute's State and Local Finance Initiative](#), the pandemic could remove an estimated \$200 billion from state coffers by June of next year. Maryland Governor Larry Hogan, said, "Responding to the crisis has created a multiyear budget crisis unlike anything the state has ever faced before, [more than three times worse than the Great Recession](#)." Although the U.S. House passed legislation to [inject additional funding](#) for the states, Republican lawmakers, who have a majority in the United States Senate, emphasized that this new money must be for items directly connected to the virus, and not to pay down state deficits.

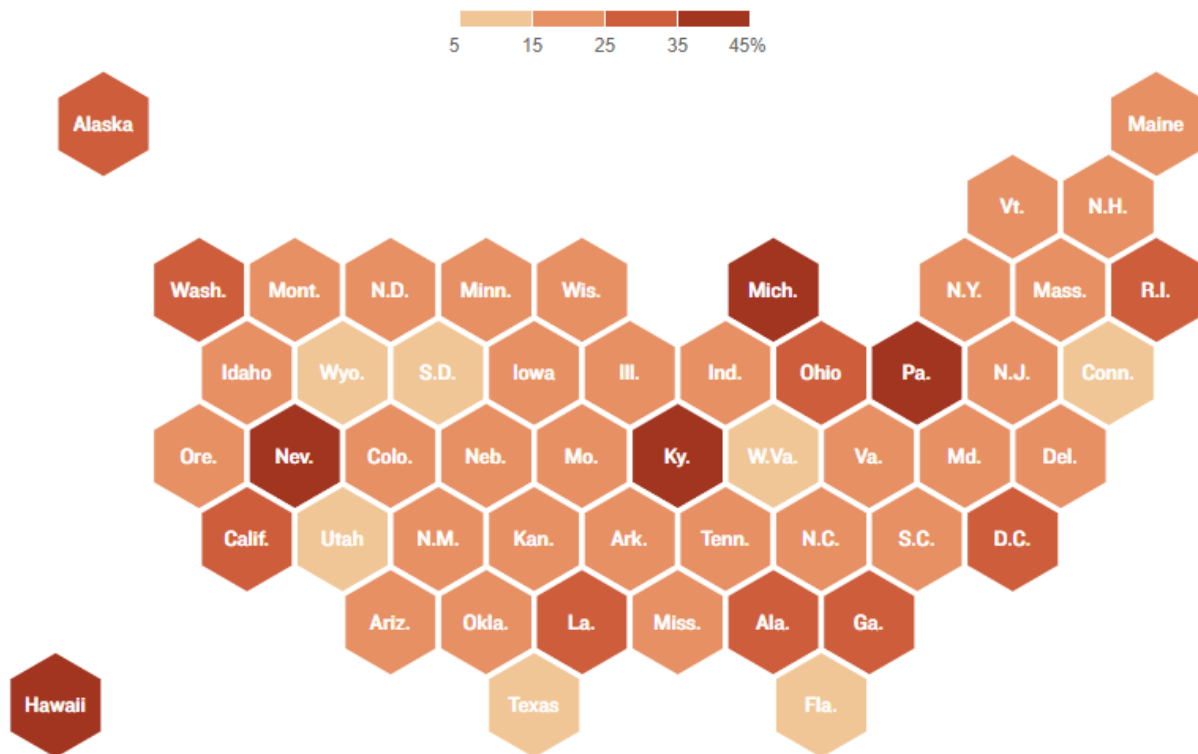
Overall, 46 states experienced a [29% decrease](#) in revenue in March through May 2020 than in the same period in 2019. (See [Chart Urban Institute's State and Local Finance Initiative](#)), provided below:



In Florida, a state dependent on tourism, tax revenue was [down 26%](#) compared to 2019. Governor Ron DeSantis approved the largest financial vetoes in Florida history, and cancelled [more than \\$1 billion](#) in spending for the upcoming fiscal year. Similarly, Maryland ended its fiscal year on June 30 with a [\\$925 million decrease](#) in tax revenue. State Budget Secretary David Brinkley said that Maryland can anticipate a [\\$2 billion deficit](#) for the current fiscal year due to the pandemic. In California, [tax revenue fell by 42%](#) from March to May. Despite the original projections in January of a \$5.6 billion surplus, the pandemic caused a [\\$54 billion deficit](#) in California by August. In Texas, significant drops in traditional revenue sources caused by a decrease in oil prices and natural gas production, the resulting effect being that all state agencies in Texas have been asked to [decrease their budgets by 5%](#) for the upcoming budget cycle. In Illinois, the three-month shutdown of most of the state's economy led to a [23% in tax revenue](#) in 2020 compared to 2019. This dramatic decrease came at a time when the budget of the Illinois Department of Public Health increased by 144%. The spending plan drafted by the Illinois legislature relies on [borrowing up to \\$5 billion](#) from the Federal Reserve in 2021.

## STATUS OF 2020 CITY BUDGETS

The pandemic has created a fiscal crisis for local governments. Municipal budgets across the United States are being cut. Cities and towns have been forced to lay off first responders, park and recreation employees, and librarians. Cities in Pennsylvania, Hawai'i, and Nevada are projected to experience the largest revenue losses due to the pandemic. ([See Chart: Source-National League of Cities](#)), provided below:



Source: National League of Cities  
 Credit: Alyson Hurt/NPR

The Las Vegas area has been hit hard during the pandemic due its narrowly tourism-focused economy. In June, Clark County officials presented a budget recommending cuts to make up for an anticipated [\\$315.2 million budget](#) shortfall. Las Vegas has requested city works to accept pay cuts, and told its unions the city is considering [laying off as many as 200 employees](#). City Manager Scott Adams stated, “We are in the midst of the [most serious fiscal crisis](#) I think the city of Las Vegas has ever faced.” The [property tax revenue](#) has not rebounded to the pre-recession level due to Nevada’s laws that cap the rate at which property taxes can increase.

In June, the Mayor of Philadelphia announced the deficit in the city budget caused by the economic downturn due to the pandemic will be [\\$100 million deeper](#) than expected, and the city will therefore require tax increases or service cuts. City revenue from the realty transfer tax is now projected to produce \$25 million less this year than the administration estimated in May. Philadelphia collects [3.278% of the value of every property](#) sold in the city, while the state applies a separate 1% levy. Philadelphia is [postponing property reassessments](#) and keeping values the same until 2023 due to COVID-19. Most property owners will keep their current property tax bills; however, properties that have new construction, expiring abatements, renovations, subdivisions, or errors in prior assessments will still be [reassessed](#).

Due to the adverse effects of COVID-19 on Hawai'i County's budget, the County Council Chairman Aaron Chung and Mayor Harry Kim are evaluating an [additional tax for residences](#) where the building plus land is valued at more than \$1.5 million or \$2 million. The additional tax of another \$1-\$2 in tax for each \$1,000 of value would be placed on second homes. Chung, who represents Hilo, provides that change would raise an [estimated additional \\$6 to \\$7 million in taxes](#) to alleviate the budget deficit caused by the business and tourism shutdowns.

## RECENT STATE AND LOCAL TAX PROPOSALS

After trying unsuccessfully for two years to convince the [Nashville City Council to raise property taxes](#) to address increasing municipal needs, Councilman Bob Mendes succeeded. Due to the impact of COVID-19, the [City Council approved a 34% increase](#). Nashville's lack of a sizable rainy-day fund forced the Council to choose between furloughing thousands of city employees or instituting a property tax rate increase. The proposal passed [32-8](#).

Prince George's County, Maryland has lost [more than \\$130 million](#) in revenue during the COVID-19 pandemic. In an attempt to increase revenue, council members are considering asking voters for an increase in property taxes. The council is proposing to change the County's Charter to allow the property tax cap to increase up to [ten percent](#). Currently, residents of Prince George's pay two to five percent on top of their assessed home value.

In Chicago, Mayor Lori Lightfoot said that a property tax increase is possible without federal money to cover the [\\$1.2 billion deficit](#) caused by the collapse of the economy. Cook County Assessor Fritz Kaegi plans to [reevaluate every single property](#) in the county in the wake of the coronavirus pandemic. In August, the [New York Times ranked 41 cities](#) based on how likely they are to suffer revenue shortfalls as a result of COVID-19. Chicago ranked 11<sup>th</sup>; while Boston ranked 41<sup>st</sup>. The study showed that the cities that are highly dependent on tourism, direct state aid, or volatile sales taxes will be in the weakest position. Cities that rely on the most stable revenue are in the strongest position regarding property taxes. In contrast to Boston, which relies on [property taxes to fund 71 percent of the municipal budget](#), [Chicago derives 12.9 percent](#) of its revenue from property taxes.

To assist property taxpayers affected by the COVID-19 pandemic [Metropolitan King County \(WA\) Vice Chair Reagan Dunn](#) introduced legislation to give taxpayers the option to make smaller property tax payments over a six-month period, rather than a lump sum payment. Dunn's legislation authorizes the County Treasurer to create [property tax payment plans](#) for both first half and second half taxes for 2020 and 2021, extending for up to six months past the due date. In effect, tax bills can be divided into five payments, with the first payment of first-half taxes due June 30, 2020, and the first payment of second-half taxes due November 30, 2020.

## IMPACT OF PROPERTY TAX ON HOMEOWNERS AND RESIDENTIAL REAL ESTATE

Property tax is [generally considered a regressive tax](#), given that it is based on home values rather than income levels. For example, two individuals could reside in the same tax jurisdiction and pay the same in property tax, regardless of their income level. However, one individual may make less income than the other and thus pay more as a percentage of their income than the higher income individual. Low-income families nationwide paid 3.7 percent of their income in property taxes in 2007, while middle-income families paid 2.9 percent of their income and the highest-income taxpayers paid just 1.4 percent.

A [study conducted by Attom Data Solutions](#) investigates whether property tax rates and the rate at which one's home appreciates are linked. On average, homes in the areas with the highest effective property tax rates appear to have appreciated more slowly during the past year and during the past five years than homes in markets with lower tax rates. In addition, homes in the middle third of markets, where effective tax rates are more modest, experienced higher rates of home value appreciation at a [35 percent](#) on average over five years. Finally, homes in the bottom third in terms of effective tax rates saw values increase faster at an average [42 percent](#) over five years, with an average increase of 5 percent in the past year. Although taxes or home appreciation rates are not the only factors that drive demand, low to modest tax rates appear to be [linked to a higher appreciation](#).

#### REALTOR® INVOLVEMENT TO PROTECT HOMEOWNERS

The NAR's Advocacy Everywhere Call for Action campaigns expand the influence of the National Association of REALTORS® and REALTOR® Associations on public policy at the local, state and federal level, by mobilizing members and consumers on taxation issues. For example, the Pflugerville City Council in Texas considered adopting a proposed FY21 budget that represents an 8% operating revenue increase, a significantly higher increase than the property revenue increase guidelines of 3.5% prescribed by the state Senate Bill 2. In response, the [Austin Board of REALTORS® \(TX\)](#) commenced a Call for Action campaign in opposition of the Pflugerville Property Tax Rate, which led to the Pflugerville City Council approving a max tax rate the REALTORS® advocated. Another example of these advocacy campaigns saw the Tennessee REALTORS® working against a bill in the state legislature that sought to enact an impact fee for six years. The bill was defeated in a subcommittee. In Maryland, the [Howard County Association of REALTORS®](#) campaigned against the County Council's proposals to raise the local real estate transfer tax from 1% to 1.5%, and to enact a progressive recordation tax increase. Due to the efforts of the REALTORS® Association, the recordation tax increase did not pass, and the transfer tax was only raised to 1.25%. These efforts show that no matter what tax proposals arise as a result of the COVID-19 induced deficits that NAR and its state and local associations are well equipped to mobilize quickly to make sure the real estate industry is well represented in these fiscal discussions.

For more than 100 years the Texas [REALTORS®](#) has made strong efforts to protect homeowners from unreasonable taxation. The Association has long urged the Texas Legislature to exempt real estate as a possible source of revenue when state officials were searching for funding. Since 1934,

the Association has supported a resolution to provide for the extension of the \$3,000 state homestead exemption and a statutory overall property tax limitation of 1% of true market value.

To address our current public health crisis, Maryland REALTORS® have conducted COVID-19 support webinars. Additionally, a group of [Maryland REALTORS®](#) gathered outside the House of Delegates Offices Building in Annapolis to protest a Maryland bill that would tax the services of real estate professionals.

To protect homeowners facing hardships in the wake of the pandemic, the [California Association of REALTORS®](#) has put its support behind a measure on the November ballot that would expand property tax portability for homeowners 55 years or older who choose to sell their home. Real estate experts confirm fears of higher property taxes keep many older homeowners from selling. This in turn contributes to a shortage of homes for sale.

Coalitions and other organizations that work on taxation issues include Chambers of Commerce, taxpayer coalitions, and local business and industry organizations. For example, the Los Angeles Unified School District decided to institute a 16-cent per square foot parcel tax on all residential and commercial buildings, known as Measure EE, to support students. Opponents saw it as an opportunistic attempt to fund the mismanaged budget of a bloated school system. The [REALTORS® of the Greater Los Angeles Association \(GLAAR\) and the Southland Regional Association \(SRAR\)](#) joined a broad coalition of local business and industry organizations to oppose the measure as unfair and irrational, soundly defeating it at the polls. Another example is in Arizona where a ballot measure to prevent any new sales tax on services resulted in a constitutional amendment. While the [AZ REALTORS®](#) provided the lion's share of funding for the campaign, they were joined in the effort by other industry groups representing services such as childcare, certified public accountants, bankers, attorneys, and the healthcare sector.

#### A TRADITION OF ADVOCACY

Property taxes have become especially important this year, due to the devastating economic effect of the global pandemic. Advocacy about this issue has taken on a special importance. The issue of property taxes is not, however, a new one for NAR and REALTORS® organizations across the country. We have long paid attention to property taxes, to make sure that the tax burden does not fall unfairly on the backs of homeowners and homebuyers.

- In 2018, the [New Jersey REALTORS®' Government Affairs team](#), with the assistance of the [REALTOR® Party's Advocacy Everywhere program](#), successfully mobilized opposition to legislative proposals to impose a sales tax on seasonal rental properties, and to increase the realty transfer fee on homes sold for over \$1 million.
- REALTORS® advocated successfully for property tax transparency in [Texas](#). The new law creates online databases to help taxpayers the process that determines their annual property tax bills; and it also lowers threshold for increasing public revenue via property tax collection and a mechanism requiring voter approval for increases beyond the established thresholds.



- The [Greater Los Angeles and Southland Regional Association REALTORS®](#) joined forces to defeat a 16-cent per square foot parcel tax on all residential and commercial buildings proposed by the Los Angeles Unified School District.
- [Florida REALTORS®](#) worked with other organizations to pass a constitutional amendment to make a temporary 10% tax cap on non-homestead properties cap permanent. The measure passed with 66% of the vote.
- A REALTOR® Party [Issues Mobilization Grant](#), together with substantial backing from the [Arizona REALTORS®' Issues Mobilization Fund](#), gave a substantial boost to a successful 2018 campaign to pass a constitutional amendment prohibiting a sales tax on services.
- [REALTORS® in Louisiana](#) worked successfully to stop a proposed tax on services before that tax made it past the discussion stage.
- In Illinois, the [Peoria Area Association of REALTORS®](#) advocated strenuously against a proposal to impose a new parcel fee on the owners of all residential and commercial property in Peoria.
- [The Hawai'i Association of REALTORS®](#) mounted a strong campaign against a proposed amendment to the state constitution that would allow for the creation of a state property tax surcharge on investment properties. The ballot question was stricken by the Hawai'i Supreme Court after a challenge by Honolulu mayor Kirk Caldwell. Mayor Caldwell noted that he might have not challenged the proposed amendment but for the campaign by the REALTORS® and other organizations.
- In 2017, [REALTORS® of Wisconsin](#) had a busy year. At the Legislature, their lobbying efforts to increase state educational funding and to eliminate a state property tax dedicated to forestry programs were successful. The REALTORS® also supported [successful efforts in the courts](#) to invalidate a Wisconsin law that limited the rights of waterfront property owners to sell adjacent parcels.

## CONCLUSION

As Benjamin Franklin said over 230 years ago, “in this world nothing can be said to be certain, except death and taxes.” Taxes are the price we pay for our civil society. Accepting both the reality and necessity of taxes, however, does not mean that these taxes must inevitably be unfair. REALTORS® everywhere continue the fight to make sure that property taxes are levied fairly, and calculated fairly. This fight is especially important now, during the current pandemic as governments work to address budget shortfalls. While all people benefit from the services provided by our governments, it is unfair to expect homeowners to shoulder an outsized share of the burden of paying for those services when the demand has sharply increased for assistance.

This Hot Topic Alert is only the start of a discussion that will likely be a momentous effort to rebalance expenditures in the wake of the pandemic. State and local governments are just beginning to realize the true cost of the pandemic, and NAR will continue to track developments in the years ahead.

Hot Topic Alerts are prepared for NAR by Legal Research Center, Inc.  
To read NAR's other Hot Topic Alerts, visit the [REALTOR® Party website](#)

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### ADDITIONAL STATE & LOCAL RESOURCES

**White Papers:** Comprehensive reports prepared for NAR on issues directly impacting the real estate industry. Examples include: Rental Restrictions, Land Banks, Sales Tax on Services, State & Local Taxation, Building Codes, Hydraulic Fracturing, Foreclosure Property Maintenance, Climate Change, Private Transfer Fees.

**Growth Management Fact Book:** Analysis of issues related to land use and modern growth management topics include: density — rate of growth, public facilities and infrastructure, protection of natural resources, preservation of community character, and affordable housing.

All available on [REALTOR® Party webpage](#) under the *State & Local Resources* tab.