

ECONOMIC BRIEF NO. 32

Property Tax Is Not Replacable

This series of economic briefs explores fundamental concepts in economics and community and economic development.

The property tax is under fire again. It is even less popular than the income tax and for good reason.

Assessment suddenly jumps. The bill comes once a year in a lump sum. There are perceived inequities in the way the property tax burden is distributed between new and established

amount of real property owned. Who benefits from sidewalks, police and fire protection, garbage pickup, and streetlights? Property owners. Even education indirectly benefits property, because the quality of local schools is an important factor in the resale value of a house.

Third, the property tax provides an indicator of taxpaying capacity or wealth. It complements income and sales as measures of ability to pay taxes.

Prior to this century, real property was the major form of wealth, so an income tax on income, a sales tax on spending, and a property tax on wealth tap all three measures of ability to pay. Now that wealth is increasingly held as intangibles such as stocks and bonds, the property tax is a weaker measure of wealth, but it still is the best available measure.

Second, there is no suitable alternative broad-based tax that can be levied by cities or counties to generate the revenue needed for local services,

including education. Cities and counties don't want to discourage retail activity with a sales tax much above the usual one percent.

Local payroll taxes only work in very large cities, and then only at very low rates; otherwise they encourage businesses to locate where the tax is not levied. Other taxes, like the accommodations tax, are fill-ins that produce small amounts of revenue at the margin. The big advantage of the property tax is that the property stays behind even if the taxpayer moves.

Finally, a diversified state and local revenue system is essential. States with only income and property taxes or only sales and property taxes tend to have high rates for both taxes. High rates distort people's decisions. They make locational, shopping, and working choices in ways that are not in their best interests or in the interests of the governments that imposed the taxes. To reduce those disincentives to shop, work, live or spend in a jurisdiction, three broad-based taxes at low rates are always better. So the property tax seems to be here to stay.

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Legislators sometimes ask how high a rate of sales tax it would take to eliminate the property tax. The answer is, there is no such rate. When a sales tax rate surpassed 10 percent (which still isn't enough), South Carolinians would cross over into the twenty border counties in North Carolina and Georgia to buy everything from groceries and clothing to computers and dishwashers. Mail order and internet purchases, already popular, would soar. So state revenue from a high sales tax rate is likely to decline rather than increase.

industry, car owners and owners of farmland, and owner-occupied and rental property.

Around the country numerous efforts have been made to restrain or even repeal the property tax. But there is no magical tax potion that will make repeal of the property tax possible. The property tax is here to stay for several good reasons.

First, the property tax is something of a benefit tax. Many local services funded with the property tax create benefits to owners of property that are proportional to the value or