Effects of Taxable Value Increase Limits— Fables and Fallacies

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Synopsis

A property tax system based on market value as the underpinning for the distribution of the property tax burden is often touted as the most equitable. Such a system inherently permits the amount of property tax to be levied against individual properties to change as the proportional share of market value represented by each property changes. While this system can be extremely responsive to property wealth changes related to economic activity, there is a downside. If current market value is used, there is a risk of permitting potentially large annual swings in the distribution of the property tax burden in times of high demand. Shifts become intensified on certain properties when market effects are not uniform throughout a jurisdiction and assessed value adjustments therefore vary from place to place.

Throughout the United States there is increasing political sensitivity to value shifts which lead ultimately to property tax shifts and lessen year to year predictability for taxpayers. A solution that appears to be increasingly politically popular is to impose caps on the amount that taxable values can increase in any given year. While these caps appear to impose order and predictability, they also can have negative effects, even on some of the properties ostensibly in the group to be protected. This paper explores the winners and losers that result from property valuation increase caps by an examination of the potential effect of hypothetical caps on residential properties within two of the largest counties in Idaho.

Introduction

Current market value often is touted as an ideal basis for property tax, as only this value captures the current underlying property related wealth. The IAAO *Standard on Property Tax Policy* (IAAO, 2004) recommends current market

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value, for example, to: "…*maximize fairness and understandability in a property tax system.*" Despite such strong direction, however, studies invariably find a minority of states in the United States with systems that, even nominally, demand such a basis, with numbers of states varying between 8 and 23, depending on the source and definitions used ()[1]. Instead of current market value, assessments often focus on base years (sometimes very recent and therefore virtually current market value), cyclic reappraisal without interim adjustments, classification systems employing fractional ratios of assessment, differential tax rates, and other means of altering the distribution effects of current market value. Often the focus of these constraints is on the residential property sector, which is perceived as having the largest disconnect between property taxes based on changing market conditions and ability to pay ()[2]. Some recent studies have shown up to 20 states (and the District of Columbia) imposing value increase constraints, at least with respect to residential property ()[3].

The Dynamics of Market Value

Changes in property tax occur for several reasons. Some systems are, in whole or part, "rate-driven." This means that a given incremental increase in underlying taxable value generally results in a similar change in property tax, simply because the tax rate does not change. Alternatively, in a strictly "budget-driven" system, property taxes may change because the budgetary needs of governmental entities (mostly local governments, including counties, municipalities, townships, school districts, and special purpose taxing districts) with property tax levying authority may change from year to year. Various budget models exist throughout the United States and many of these systems limit the amount by which the property tax portion of each entity's budget can increase. Even then, voter approval may enable taxing districts to exceed limits for various purposes.

Although budget-driven systems are conceptually preferred ()[4], regardless of the degree to which property tax dollars to be raised are constrained, unless individual property tax or value increase constraints are imposed, market value changes can still alter the distribution of the property tax burden. Assuming no limit on the amount of change in taxes to be paid by an individual property, this alteration is more intense when markets are unstable and current market value is used as the basis for the distribution of the tax burden. Table 1 ()[5] demonstrates this principle using a simple three property universe:

To more clearly demonstrate just the effect of value changes, the 2005 property tax budget has been held constant. This has forced the tax rate to decrease from 1.5% in 2004 to 1.25% in 2005. Despite this decrease, however, Parcel C represents a greater proportion of the total taxable value in the taxing district needing to raise $4,500. Since Parcel C now reflects almost 39% of this total value, while Parcel A is now only about 28% of total value, the respective tax shares (and taxes) change accordingly.

The principle demonstrated in Table 1 is merely an exercise in property tax distribution. Because the total amount of

Table 1. The effect of assessed value changes on property tax given a current market value based budget-driven system

Parcel	2004 Market Value	2005 Market Value	2004 Property Tax $	2005 Property Tax $	Change in Property Tax $
A	100,000	100,000	1,500	1,250	- 250
B	100,000	120,000	1,500	1,500	± 0
C	100,000	140,000	1,500	1,750	+ 250
Totals:	300,000	360,000	4,500	4,500	± 0

available funding has not changed, while individual amounts to be paid have, the changing market place, with assessments completely in synch with the changes, can lead to the perception that the underlying system is broken. After all, not only is Parcel C being asked to pay more tax, presumably there will be no additional services, as there is no additional overall funding. Similarly, Parcel A is perceived as not using any fewer services than in 2004, so why pay less? While this sort of analysis effectively describes the system, it can also lead to less political support for the system. Respect for the dynamics of the market place does not promote acceptance; to the contrary, without further investigation, change in tax without commensurate change in services suggests inequity.

Value increase constraints round one—the political response

Limiting the amount by which assessed values can increase from year to year appears to be an obvious and simple solution to the perceptions engendered by situations like the one illustrated in Table 1. The IAAO *Standard on Property Tax Policy* rejects this option, suggesting that such limits "…*may appear to provide control but actually distort the distribution of the property tax, destroying property tax equity and increasing public confusion and administrative complexity*[6].( )" Nevertheless, such limits are quickly recognized as ways by which to stabilize the amount of tax to be paid by individuals under either budget or rate driven property tax systems. Table

2 demonstrates the effect of a 3% value increase limit on the market value and tax shift changes noted in Table 1.

Changes in tax are shown in relation to what the taxes would have been in 2005 had the constraint not been in place. This table demonstrates the principle of winners and losers that develops; stability is achieved at the expense of market value based equity. Property with rapidly increasing market value is sheltered and redistributes part of its tax burden onto properties with less rapid value growth. Notably, one of the two properties paying more tax does so despite having its taxable value constrained by the cap.

Value increase constraints round two—identifying winners and losers

Although the principle of tax shifting as a result of changes in proportional shares of underlying value is obvious, the effects can be more subtle than those shown in Table 2 and depend largely on the distribution of nominal market value changes of various magnitudes. The following series of tables explores this issue in greater depth by showing tax changes and identifying numbers of winners and losers given ten parcels and various hypothetical value increase scenarios.

For this analysis, a budget driven system was assumed. Because the intent is to isolate the effects of one feature, value changes, the underlying overall budget was held constant. Only the distribution based either on constrained or unconstrained values is allowed to change. At

Table 2. The effect of assessed value change caps on property tax given a budget-driven system

Parcel	2004 Assessed Value	2005 Assessed Value (without cap)	2005 Capped Assessed Value (3% increase cap)	2005 Property Tax $ without cap	2005 Property Tax $ with capped value	Change in Property Tax $ caused by caps
A	100,000	100,000	100,000	1,250	1,471	+ 221
B	100,000	120,000	103,000	1,500	1,515	+ 15
C	100,000	140,000	103,000	1,750	1,515	- 235
Totals:	300,000	360,000	306,000	4,500	4,500*	± 0*

the starting point, each property had a taxable value of $100,000.

In Table 3, it is assumed that each percent shown in the "percent change in individual parcel property values" column reflects a value change (without any cap) for one of the ten parcels, which are intended to represent the universe of properties in the hypothetical taxing jurisdiction. So, for example, given a 1% value increase cap, parcels with 0% and 1% value increases would not experience any value reduction, but would pay $51 or $52 more in taxes, respectively. The other 8 parcels would have values reduced by the 1% cap; however, 3 of these would still pay higher taxes than without any cap.

It is interesting to note that, in Table 3, the number of winners never exceeds the number of losers and often there are far fewer winners than losers. While this is merely an artifact of the chosen distribution of value increases, it has real world implications and demonstrates several important and not entirely intuitive effects of value constraints.

- Higher value increase caps should be preferred conceptually over tighter constraints because they produce less overall distortion and shifting of property tax.

- Properties with lower values as a result of value constraints sometimes pay higher taxes than would have been the case without the constraint.

- Properties with increases below the constraint line are always losers; the degree of loss worsens as the constraint tightens, but the proportion of non-reduced losers is lower given tighter constraints.

In examples involving symmetrical distributions, but higher median increases,

Table 3. Effects of value constraints given symmetrical distribution of changes and various value increase constraints.

Dollars of tax shifted given value increase limit shown below									
Percent change in individual parcel property values	Tax $ no cap	1%	2%	3%	4%	5%	6%	7%	**8%**
0.00%	1,435	51	40	29	21	14	8	4	1
1.00%	1,450	52	40	30	21	14	8	4	1
2.00%	1,464	37	40	30	21	14	8	4	1
3.00%	1,478	23	26	30	22	14	9	4	1
4.00%	1,493	9	12	16	22	14	9	4	1
5.00%	1,507	-6	-3	2	7	15	9	4	1
6.00%	1,522	-20	-17	-13	-7	0.2	9	4	1
7.00%	1,536	-34	-31	-27	-21	-14	-6	4	1
8.00%	1,550	-49	-46	-41	-36	-29	-20	-10	1
9.00%	1,565	-63	-60	-56	-50	-43	-34	-24	-13
Totals:	15,000	0	0	0	0	0	0	0	0
Above table based on non-skewed distribution of changes with 4.5% median and mean rate of change.									
Number of parcels with value reduced by cap		8	7	6	5	4	3	2	1
Losers		5	5	6	6	7	7	8	9
Winners		5	5	4	4	3	3	2	1
Reduced value properties that lose		3	2	2	1	1	0	0	0
Non-reduced properties that lose		2	3	4	5	6	7	8	9

Adjusted to reflect rounding.

higher value constraints are necessary to skew the numbers of losers. For example, when there are 10 properties with a 6.75% median increase, 6 losers first appear with a 4% value increase limit, instead of at the 3% increase limit given a 4.5% median increase. When the median increase grows to 9%, 6 losers first appear with a 6% cap.

Although it may be obvious that parcels with very low increases and therefore without any direct benefit of a value cap would pay higher taxes under such a capping system, it is less intuitive that some of the capped (reduced value) parcels also pay more than they would without a cap. This is disclosed by table 3, which shows, for example, a parcel that should have had a 4% increase in value paying $9 more in property tax, despite having its value increase limited to 1% (see the 1% cap column of Table 3). In real world situations, the same effect occurs because value increase caps are most effective (reducing taxes the most) for the typically small number of properties that otherwise would be subject to the greatest increases.

Table 4 summarizes findings for various ranges of increases. All ranges were developed to retain symmetry. In other words, there is no distortion caused by large incremental changes in the amount of value increase that has been applied in creating the database.

Again, the results shown in Table 4 depend entirely on the distribution of value changes in the population of properties affected by the constraint. "NA" indicates that no parcels had increases as high as the indicated value constraint.

Value increase distributions in which there are few properties with small increases (relative to the mean increase) and many with larger increases will produce greater numbers of winners than losers. Table 5 demonstrates this principle.

Although initially, the greater concentration of properties just over the mean change results in more winners, when the cap becomes 5%, the three properties with 8% value increases swing from the winner to the loser column (just slightly, with each increase less than $1 and shown as "0" due to rounding).

Value increase caps—round three; the effect on real world properties

While the mathematical exercises in the preceding sections demonstrate the principles involved, it is important to recognize the difference between such

Table 4. Proportion of losers (see note below) caused by value increase constraints given symmetrical distribution of various magnitude value changes.

Median percent increase in value prior to imposition of constraint – (Percentages in cells represent proportion of losers given respective value constraints and median value changes.)						
Value Constraint	0%	2.5%	4.5%	6.75%	9%	22.5%
1%	70%	50%	50%	50%	50%	50%
2%	70%	60%	50%	50%	50%	50%
3%	80%	70%	60%	50%	50%	50%
4%	90%	90%	60%	60%	50%	50%
5%	NA	NA	70%	60%	50%	50%
6%	NA	NA	70%	60%	60%	50%
7%	NA	NA	80%	60%	60%	50%
8%	NA	NA	90%	70%	60%	50%
9%	NA	NA	NA	70%	60%	50%
10%	NA	NA	NA	80%	70%	50%
Standard deviation of value changes applied	3.0%	1.5%	3.0%	4.5%	6.1%	15.1%

Note: "Losers" are defined throughout this paper as properties that pay higher taxes as a result of a value constraint.

hypothetical constructions and real world situations involving actual property values. For this reason, and with the cooperation and assistance of two Idaho county assessors (from Ada and Kootenai counties), I analyzed a large number of properties, most of which are improved residential parcels. The two counties chosen are quite different, with Kootenai County being the third largest in population and being a destination resort and recreational area, while Ada County is more of a business, government, and residential hub for the state, with the largest city and greatest concentration of population in any Idaho county.

To better understand assessed value increases and tax consequences in the examples that follow, it is useful to know that Idaho assesses most property (exceptions for agricultural land, etc.) at full, current market value, and reassesses (or adjusts) annually to reflect market changes. Primary residences may be eligible for a homeowner's exemption equal to the lesser of 50% or $50,000

deducted from the market value of the improvement, so there is some favored treatment in the primary residential property sector. Idaho also has a circuit breaker program which can reduce property taxes for eligible low income elderly or disabled homeowners by up to $1,200. All property analyzed was from categories to which full market value appraisal and assessment applies. To the extent possible, new construction and vacant land were excluded from this study.

In Idaho, most property tax rates float due to taxing district budget constraints. School general taxes are based on prior year's values, so, even though they are rate driven, rates still drop the year immediately following value increases.

Analysis of Kootenai County data

Analysis of data in Kootenai County was limited (as near as could be determined) to improved residential parcels where improvements existed in both 2004 and 2005. This data base included 33,383 parcels out of about 63,000 real

Table 5. Distribution of property value changes resulting in a larger number of winners than losers given certain value increase constraints:

Dollars of tax shifted given value increase limit shown below									
Percent change for individual parcel property values	Tax $ no cap	1%	2%	3%	4%	5%	6%	7%	8%
0.00%	1,404	84	72	60	49	41	32	24	16
0.00%	1,404	84	72	60	49	41	32	24	16
4.00%	1,461	42	45	48	51	42	34	25	17
4.00%	1,461	42	45	48	51	42	34	25	17
8.00%	1,517	-14	-11	-8	-5	0	6	12	17
8.00%	1,517	-14	-11	-8	-5	0	6	12	17
8.00%	1,517	-14	-11	-8	-5	0	6	12	17
12.00%	1,573	-70	-67	-64	-61	-56	-50	-44	-39
12.00%	1,573	-70	-67	-64	-61	-56	-50	-44	-39
12.00%	1,573	-70	-67	-64	-61	-56	-50	-44	-39
Totals:	15,000	0	0	0	0	0	0	0	0
Number of parcels with value reduced by cap		8	8	8	6	6	6	6	3
Losers		4	4	4	4	7	7	7	7
Winners		6	6	6	6	3	3	3	3
Reduced value properties that lose		2	2	2	0	3	3	3	0
Non-reduced properties that lose		2	2	2	4	4	4	4	7
Median change	8.00%								
Mean Change	6.80%								
Standard Deviation	0.04638								

property parcels throughout the county. Residential properties were chosen for analysis because they appear to be the most politically volatile group of taxpayers at present in Idaho. They are also the properties that, in Idaho, have been most subject to inflating values in recent years.
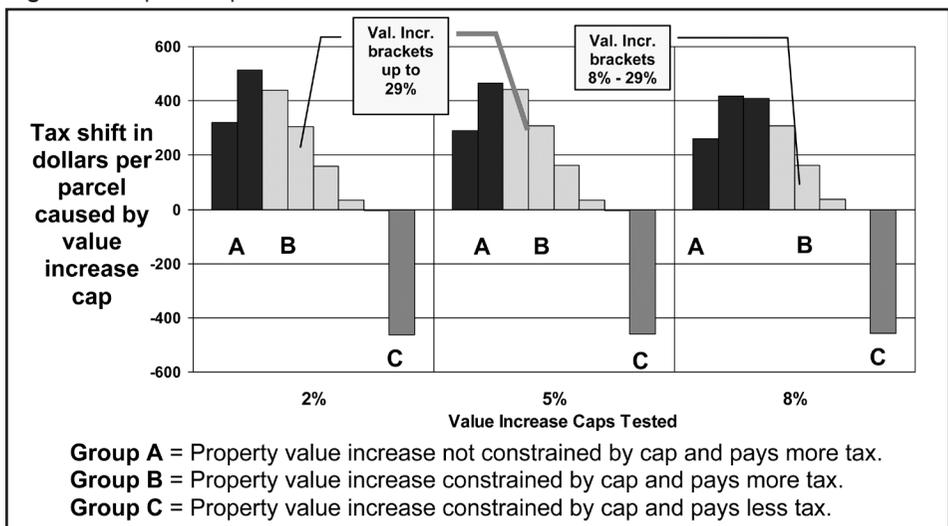
Between 2004 and 2005, the median property in the group analyzed in this county increased in taxable assessed value by about 28%, after accounting for homeowner's exemptions that mitigate some of the increases. The median assessed valued (after subtracting the homeowner's exemption) was $123,504.

Although the 2004 effective tax rate was about 1.5%, it is expected that budget constraints in the Idaho tax system will force that rate to drop to about 1.2% in 2005. Although the 2005 tax rate and tax budgets were not known at the time this analysis was prepared, approximate taxable values were known and taxes were computed assuming a 7.5% increase in budgeted amounts. Although some property taxes would have been shifted to non-residential properties, data was not available to adequately analyze this effect, so the dollar amount of property taxes paid by the analyzed properties was assumed to be constant. Any error due to

Table 6. Expected tax shifting changes in Kootenai County improved residential parcels given various value changes and value increase caps. *(Table is a partial summary of selected ranges within overall data base)*

Percent Value Change (actual) 2004 – 2005	Number of Parcels in Group	Mean Taxable Value (2005)	Estimated 2005 Tax ($ per parcel)	2% value increase cap	5% value increase cap	**8% value increase cap**
Below (–10%)	781	65,495	787	319	289	261
1% - 2%	65	105,257	1,265	513	465	420
5% - 6%	74	103,004	1,238	440	442	411
12% - 13%	230	99,551	1,196	305	307	309
19% - 20%	1,962	85,813	1,031	159	161	163
28% - 29%	2,048	109,438	1,315	33	35	37
30% - 31%	1,343	125,707	1,510	(5)	(3)	±0
>40%	3,976	182,225	2,190	(463)	(460)	(457)

Figure 1. Graphical representation of data in table 6

Group A = Property value increase not constrained by cap and pays more tax.
Group B = Property value increase constrained by cap and pays more tax.
Group C = Property value increase constrained by cap and pays less tax.

Note: Each bar represents a percent value change bracket (table 6)

Tax shift in dollars per parcel caused by value increase cap

Val. Incr. brackets up to 29%

this effect is believed to be quite small.

The following table shows the effect of imposing various value increase caps on all of the properties in this data base. Because of the size of the data base, this table is a representative excerpt taken from a more extensive table and designed to summarize the effects of the value increase caps that were analyzed. The complete table showed effects on properties with assessed value changes from -10% (or even greater reductions) to +30% (or greater increases) using 1% wide brackets.

Property tax increase (decrease) given value increase constraint shown

Table 6 is shown graphically in Figure 1, where bars correspond to value change brackets in Table 6.

Table 6 includes a sample of nearly 1/3 of all parcels analyzed in the Kootenai County data base. One of the interesting discoveries demonstrated is that many properties that have their taxable values reduced due to the various value increase constraints that were tested pay higher taxes than would have been the case without the constraint. This critical group is shown graphically in Chart A and is identified as "Group B."

Because of failure to take into account the portion of property taxes that would be shifted to other properties, outside the 33,383 properties in the analysis, it is likely that the break even point might be a bit below the 29%–30% increase where it occurs without allowing for this factor. Nevertheless, a large number of capped properties end up with lower taxable values, but higher taxes, just as was demonstrated hypothetically in earlier tables. Note, for example, the 1,962 parcels with 19%–20% value increase changes from 2004 to 2005. Any of the value increase caps tested would lower the taxable value of each parcel in this group. Nevertheless, the same parcels would pay about 15% higher taxes despite the capped values.

Major findings in the analysis of this data base under the assumptions used for this analysis follow:

- 60% of the parcels tested would pay more tax due to value increase caps, while 40% would benefit;

- Although 86%–88% of all parcels in the data base are capped (ie: have lower taxable values as a result of any of the caps chosen), 53%–54% of all capped parcels pay higher taxes than they would with <u>no</u> value constraint.

- Because higher value properties were subject to greater increases in taxable value, value increase caps in Kootenai County would have significantly shifted property taxes from higher to lower value properties in this county.

Analysis of Ada County data

Analysis of data in Ada County was limited (as near as could be determined) to improved residential parcels where improvements existed in both 2004 and 2005. This data base included 98,012 parcels out of about 141,000 real property parcels throughout the county.

Ada County property values did not increase as rapidly as in Kootenai County. Between 2004 and 2005, the median property in the group analyzed in this county increased in assessed value by about 5%, after accounting for homeowner's exemptions that mitigate some of the increases. The median assessed value (after subtracting the homeowner's exemption) was $131,749. Although the 2005 tax rate and tax budgets were not known at the time this analysis was prepared, approximate taxable values were known and taxes were computed assuming a 7.0% increase in budgeted amounts. The average effective tax rate is estimated to be about 1.6% and is not expected to drop appreciably in 2005.

In Ada County there was an attempt to analyze shifts to non-residential parcels.

With a starting estimate of about $213 million in overall residential property taxes, between $1.4 million and $5.6 million appear to shift away from this property sector, depending on the value cap imposed. Summary tables for selected value change brackets show taxes shifted between residential parcels and take this "external" shift into account. Table 7 demonstrates tax shifts within the data base that was analyzed that would be expected to occur in Ada County given the same value increase caps that were explored for Kootenai County. Table 7 is excerpted from a more extensive table that included the effects on each 1% value change increment that was analyzed. Because more properties were concentrated in fewer value increase ranges in Ada County, as opposed to Kootenai County, Table 7 includes about 2/3 of all parcels in the data base for that county.

Property tax increase (decrease) given value increase constraint shown

Table 7 is shown graphically in Chart B, where bars correspond to value change brackets in Table 7.

Table 7 demonstrates a somewhat different picture than was the case in Kootenai County. Because of the large concentration of assessed value changes

Table 7. Expected tax shifting changes in Ada County improved residential parcels given various value changes and value increase caps. *(Table is a partial summary of selected ranges within overall data base)*

Percent Value Change (actual) 2004 – 2005	Number of Parcels in Group	Average Taxable Value (2005)	Estimated 2005 Tax ($ per parcel)	2% value increase cap	5% value increase cap	**8% value increase cap**
0 – 1%	4,025	129,165	2,129	55	29	17
2% - 3%	5,807	131,545	2,168	43	29	17
4% - 5%	27,592	122,528	2,019	(2)	27	16
5% - 6%	8,419	152,658	2,516	(29)	14	20
6% - 7%	8,194	146,813	2,419	(53)	(12)	19
7% - 8%	6,220	131,340	2,164	(70)	(34)	15
8% - 9%	4,894	140,857	2,321	(99)	(61)	(10)
>30%	660	206,293	3,400	(910)	(867)	(810)

Chart B:
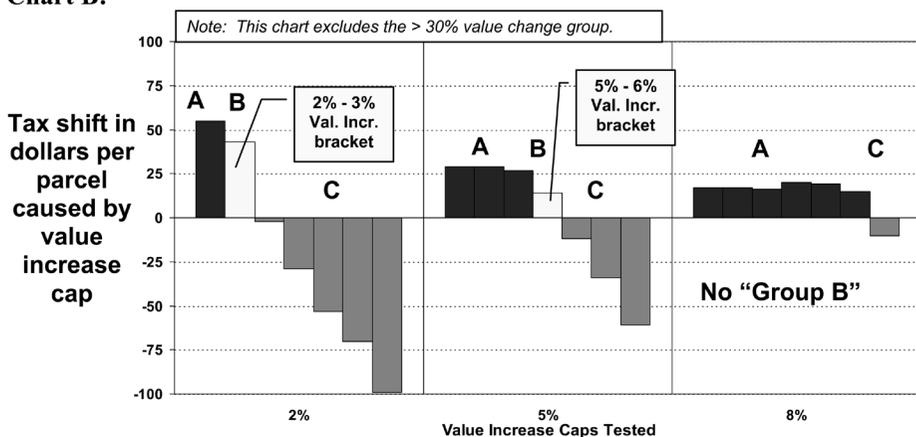
Group A = Property value increase not constrained by cap and pays more tax.
Group B = Property value increase constrained by cap and pays more tax.
Group C = Property value increase constrained by cap and pays less tax.

Note: Each bar represents a percent value increase bracket (previous table)

around the 5% increase amount and the proportionately small number of parcels with large increases, a larger amount of tax can be shifted from these relatively few parcels with less impact on the other properties. Note too that taxes in the predominant 4%–5% assessed value increase group are virtually level regardless of the value increase limit imposed. Hence, it is not as meaningful to compute numbers of winners and losers; the 28% of all analyzed parcels in this large group are really neither, but over-influence the counts, which otherwise vary from 25% losers with a 1% or 2% cap to 76% losers with an 8% cap. With the swing group included in the loser column, up to 38% of all capped properties in Ada County would pay higher taxes given a 3% cap (data not shown in summary tables). Even ignoring this swing group, however, between 8% and 19% of all capped properties pay higher taxes despite having lower taxable values as a result of the cap. In other words, the benefits of a value increase cap do not apply to all properties that have value increases in excess of this point. In Ada County, the tax break-even points were as shown in Table 8.

As was mentioned earlier, higher value caps are less distortive, so more nearly define break-even points.

Response to the political response

As should be obvious from the mathematical permutations that may exist

Table 8. Break-even points in Ada County data base given various value increase caps

Value increase cap	Lower taxes provided value increase **greater than** percentage shown
1%	4%
2%	4%
3%	5%
4%	5%
5%	6%
6%	7%
7%	7%
8%	8%

in the real world of property values and market place changes, value increase caps may indeed appear to be protective – and, in practice, will be protective of some taxpayers. However, the warning in the IAAO *Standard on Property Tax Policy* about appearances deceiving may be translated into a warning about the unpredictability of the impact of any such cap. Particularly in today's high demand environment that has pushed market values up in many areas, even the initial assumption that today's increases must equal tomorrow's will be suspect. Long run analysis would be even more prone to error.

The bottom line is that capping values may increase individual tax predictability, but may have unintended tax shifting effects with respect to large numbers of properties, some of which may appear to be beneficiaries of the caps, while they actually pay higher taxes. This phenomenon is more pronounced in situations, such as Kootenai County, where many disparate market influences often result in a wide range of assessed value adjustments.

Ultimately, value increase caps serve to protect taxpayers with rapidly increasing values, while they appear to leave unharmed other taxpayers. This superficial view regarding the effects on other taxpayers is patently incorrect. This analysis has identified a third, less than obvious group of taxpayers – those with lower values as a result of a cap, but who pay higher property taxes due to tax shifting. This is an insidious and largely invisible, yet indisputable result of value caps, given underlying budget (not rate) driven property tax systems. So, not only do value increase caps distort the distribution of the property tax, as is stated in the IAAO *Standard on Property Tax Policy*, the caps violate openness and transparency criteria recommended in Appendix D of that Standard. In part, this provision of the standard states:

> "…*taxpayers must be able to distinguish between, on the one hand,*

differentials in tax burdens caused by differential tax rates, assessment ratios, exemptions, limits on changes in assessments, and the like and, on the other hand, differentials caused by nonuniform valuations. "

Additionally, based on statewide analysis of inflation trends in Idaho, value increase caps clearly would shift residential property taxes to commercial/industrial and farmland/timberland sectors. These non-residential sectors have not experienced as much value inflation in recent years ()[8]

Instead of value increase caps that may incidentally provide some relief, targeted approaches that seek to identify needy taxpayers are worth considering. These include broad "circuit-breaker" and similar programs, such as tax deferrals. If tax relief is to be directed toward residential property in the form of homestead type exemptions, inflation indexing is a key to avoid erosion of benefits. In any case, shares of taxes paid by diffe

ent sectors should be analyzed frequently to ensure they are in keeping with underlying public policy. In addition, tax shifting effects and validity of exemptions should be reviewed regularly. ()[9]

Value increase caps must be viewed from the perspective that they will only create the appearance of limiting property tax in many growth situations. In the short run they fail to help obviously needy taxpayers for whom current taxes may be too high, but who do not have properties that are increasing rapidly in value. Such caps merely pit one segment of any community against another. In the long run, value increase caps function to paralyze reassessment systems that attempt to more equitably distribute the property tax, which, after all, was designed to be a tax on property value.

References

[1] See for example, Exhibit 3-8, *Property Tax Policies and Administrative Practices in Canada and the United States.* IAAO. 2000. Also, Dornfest, Alan S. and Douglas Thompson. State and provincial ratio study practices: 2003 survey results. *Journal of Property Tax Assessment and Administration.* Volume 1, Issue 1, 2004.

[2] Exhibit 3-11, *Property Tax Policies and Administrative Practices in Canada and the United States.* IAAO. 2000.

[3] Baer, David. *State Programs and Practices for Reducing Residential Property Taxes.* AARP Public Policy Institute. May, 2003.

[4] See section 5.2.1. *Standard on Property Tax Policy.* IAAO. 2004

[5] Modeled after Dornfest, Alan S., Overcoming property tax demons and mysteries. Table 2. *Fair and Equitable.* Volume 1, Number 1. January, 2003. IAAO.

[6] See section 5.4.3. *Standard on Property Tax Policy.* IAAO. 2004.

[8] Author. A 2005 unpublished study indicates an annual rate of residential property value inflation of 4.6%, while the annual rate for commercial/industrial property value has been 0.7%, and the annual rate of inflation related value increases in all other classes was 2.6%. Inflation related increases are defined as those increases unrelated to new construction.

[9] Youngman, Joan, and Jane Malme. Stabilizing property taxes in volatile real estate markets. *Land Lines.* Lincoln Institute of Land Policy. July, 2005.