Advantages and Disadvantages of Property Taxes

Property taxes are usually rated by the public as the most unpopular of all taxes. Nevertheless, there are two sides to every issue. Property taxes do have distinct advantages if they are levied in an equitable manner.

The International Association of Assessing Officers (IAAO) outlined some of the good points and bad points associated with property taxes in its 2010 Standard on Property Tax Policy. Here are some of the results.

ADVANTAGES

• **The property tax is a more stable and reliable revenue source than any other tax.**

  That's because property values are usually less susceptible to short-term economic fluctuations than other major revenue sources, including sales and income taxes.

• **Since property taxes can be secured by the property, they are difficult to evade.**

  This ensures that a broad segment of the population shares in the costs of government.

• **Property tax systems are more open and visible than those for other taxes.**

  For example, property owners can examine their assessments and those of nearby properties; they have the opportunity to appeal the assessment; and they are usually faced with a bill that shows their entire liability, which makes the full magnitude of the tax obvious. This is not the case with taxes that are collected in small amounts as part of the purchase price (sales tax) or are withheld from pay throughout the year along with many other items (income tax).
DISADVANTAGES

• The large lump-sum payments often associated with property taxes are seen as a major disadvantage.

Since property taxes fall on unrealized capital gains, they may not be correlated to cash flow. This makes payment more difficult for companies that are property rich, but income poor.

• There is often a misunderstanding of the relationship between appraised value and tax.

This can be viewed as a disadvantage when compared to fixed-rate taxes, such as sales and income taxes. The problem is magnified when tax jurisdictions permit long or irregular periods between reappraisals, leaving taxpayers ultimately hit with sticker shock.

• Property tax appraisals may be perceived as inequitable, especially since assessment ratios differ between property classes.

In many cases, appraisals may truly be inequitable. Lack of adequate state or local oversight and demonstrably poor uniformity among comparable properties are prime indicators of inequitable treatment.

• Appraising property for tax purposes is a resource-intensive process compared to the voluntary reporting mechanisms of income and sales taxes.

This makes property taxes appear to be administratively cumbersome and expensive. However, the cost of tax administration consists of compliance costs as well as administrative costs. In property taxation, administrative costs are high. While in income and sales taxation, compliance costs are high.

Property taxes have both pluses and minuses—there is no such thing as a perfect tax. However, the IAAO report notes, “Among the many types of taxes levied, the property tax is the only tax used in every state of the United States and the District of Columbia. In fact, the property tax remains the most important source of total revenue for local governments.”