

Property Tax Reform

Background

The most disliked of all taxes may be the one levied on property. It is the oldest tax imposed by government and records of its use date back 5,000 years. In answering Caesar's requirement that "all the world be taxed" Joseph and Mary went to Bethlehem to pay the property tax on his ancestral land. The modern system of property taxation began with William the Conqueror in 1085 when he created the first property tax roll appropriately called the "Doomsday Book".

Until the last century property taxes were the primary source of funding for both state and local governments in the US, but despite the tax's long history most people still don't like it. Yet if properly administered (and that is a big "if") the property tax is an important component of a balanced tax system. It is the one tax best suited for use by local governments.

Last fiscal year property taxes in West Virginia raised almost \$1.2 billion. All but \$4.7 million went to support local governments with the rest used by the State for administration. The local share was divided approximately into 66 percent to schools, 25 percent to counties and 9 percent to municipalities.

Despite public opinion to the contrary, property taxes in West Virginia are not high. The latest data (2003) shows West Virginia ranking 43rd among the 50 states and Washington, D.C. Our average per capita property tax is \$529 compared to an all states average of almost twice that amount (\$1,020).

West Virginia maintains the same ranking when property taxes as a percent of total state and local revenue are used as a measure. Here property taxes represent only 20 percent of state and local revenue compared to the all states level of 32 percent. One additional measure compares property taxes to income. Again the 43 position is held by our State. Property taxes take 2.2 percent of personal income compared to the all state average of 3.2 percent. Of the surrounding states only Kentucky imposes a similarly low burden.

Property Tax Relief

One persistent criticism of the property tax is its impact on elderly and low income homeowners. Areas such as the eastern panhandle, the north central region and Putnam County have seen rapid increases in market prices for homes. These increases raise the cry that those living in their homes for many years can not afford the increased taxes.

The State had gone a long way to cushion the blow on these individuals from the property tax on their homesteads. All homeowners over age 65 living in their houses get a \$20,000 exemption from assessed valuation on their homes. If their home is assessed at the required 60 percent, and it probably is not, then the first \$33,300 of market value escapes tax.

Last year's legislative session provided further relief. Low income elderly and the disabled now have an alternative. They can choose a "circuit breaker" refundable property tax credit (maximum \$1,000) for real property taxes paid on the homestead which exceeds four percent of their household income, or they can take the credit for property taxes paid on the first \$20,000 of assessed valuation, whichever is greater. These credits are in addition to the \$20,000 elderly exemption. If an eligible individual were to use the second of these options, no property taxes would be paid on the first \$66,600 of market value.

Personal Property Taxation

Taxation of personal property (usually defined as anything which is not land or structures) poses a difficult problem for West Virginia. The property tax on farm and business machinery, inventories, automobiles and trucks plus recreational equipment remains even though taxes on all other forms of personal property in our State have been repealed.

Students of public finance are critical of taxing business and farm machinery and inventories. Personal property is moveable and can locate elsewhere. As the problem of property taxes on vehicles which are registered out of state attests, personal property taxation is administratively difficult as well as a deterrent to investment and job creation. Taxation of inventories discourages the location of distribution centers in the State despite our ideal geographic location.

Commission on Fair Taxation

When the **Commission on Fair Taxation** made its report there was a strong recommendation for abolition of the personal property tax. "The Commission firmly believes that the overall impact of the new tax structure-particularly relief from personal property tax on inventories, machinery and equipment-will generally tend to make West Virginia more competitive." The tax on inventories and equipment would be repealed over a five year period.

The tax on vehicles was to be phased out immediately. In a rural and sparsely populated state such as West Virginia the ability to drive to ones place of employment is critical. With public transportation being very limited across the State, many individuals have no choice but to commute. For low income individuals who live away from existing or potential places of employment the tax is particularly deleterious.

Enforcement is also an issue. Assessors in border counties cite the prevalence of cars registered out of state to in-state residents. This evasion reduces the tax yield. It was predicted that repeal might actually lead to increased revenue as more cars would then become registered in West Virginia.

Since personal property accounts for over a third of all property tax revenue state wide and more than 50 percent of property tax revenue in some counties, its repeal is not a trivial matter. Since most jurisdictions would have sufficient revenue from the expanded real property tax base, this is not an issue for them, but for others it is. The revenue from the General Excise Tax, Single Business Tax and the revised Personal Income tax would be used for replacement. The Commission provided that each county would be held harmless and receives sufficient replacement revenues.

Tax Modernization Project

The Tax Modernization Project, while recognizing the detrimental economic effects of the personal property tax, did not recommend its repeal. Their reluctance was tied to there not being a “viable alternative source of revenue under local control”. The Commission urged a review of the exemptions from the sales and property taxes to see if removing these would provide adequate revenue.

The Project did note, however, the discrimination which exists between property taxation of homes and business. Property taxes on business real property are double what they are on homes. The taxation of business personal property means overall business property taxes are the highest in the region and well above the national average. West Virginia is only one of twelve states still taxing inventories.

Underassessment of real property was a major issue for the Project. As noted in the section on education finance, each county is mandated to make a local property tax effort to match state aid. That effort is calculated by taking the Legislature’s mandated levy rate against the assessed value of property in the county. The State Constitution and Code require that all property be assessed at 60 percent of its appraised or market value. If real property in a county was assessed at less than 60 percent the school district would receive a greater amount of state aid than if it had practiced proper assessment.

While assessment practices in the State have improved in the past two years, there is still considerable inequality between counties. Counties which assess at or near the required 60 percent are penalized and those who underassess are rewarded. Across the State other taxpayers pick up the bill for those in counties which underassess. The Project recommended several actions, including more State assessment and monitoring, to reduce these inequities.

Conclusion

Many of the problems with property taxes remain a decade after the Commission began its work. If the property tax is to be more fully accepted it must meet the first rule of taxation, "equals should be treated equally". An Interim Legislative Committee has been studying the role of the property tax in the state education aid formula and progress has begun.

Unfortunately, the negative impact of the personal property tax on business expansion in West Virginia continues. It is part of an overall tax system which does not invite business to come or to grow in the State. Opening the State for business requires another look at the Fair Tax Commissions proposals.