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The Burden of Property Taxes on Homeownership & Economic Security in the USA

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Abstract: The weight of property taxes on homeowners has been shown to strain many Americans. While local and state governments depend on these property taxes, some homeowners are adamant about paying these taxes. Given such circumstances, research on how property taxes influence homeownership and housing costs across the states is relevant. While some people can afford homes or inherit some, they cannot maintain these homes due to high property taxes. Local and state governments must reduce their dependence on property taxes; policymakers must look for alternative revenue sources. This research was motivated by the need to examine the implications of property taxes on the ability of local governments to meet the needs of their populations across different income brackets and demographic groups. This paper used secondary data collection methods and qualitative secondary analysis to compare different sources. This methodology proved efficient, as the study established that property taxes affect home ownership and how prospective buyers view property. Secondly, property taxes affect homeowners' economic security by impacting financial stability and the owner's well being. In conclusion, the paper shows how tax reforms can benefit Americans, especially those burdened by property taxes. Lastly, this paper proposes adopting more equitable assessment practices and relief mechanisms for vulnerable populations.

Keywords: Taxes, Property Taxes, Tax Levy, Homeownership, Economic Security, and Taxation.

1. Introduction:

Property taxes are an essential source of revenue for the local and state governments. According to (2014), they account for about one-third of all total capital tax revenues in the United States and the European Union. They are levied on the value of real estate property, which includes land, buildings, and any structures permanently attached to the land. Property taxes account for more than thirty percent of local and state revenue collections. According to Thomson Reuters, a global tax directory, they also account for more than seventy percent of total local tax collections (Thompson et al., 2023). Local governments, such as cities, counties, and municipalities, typically assess and collect these taxes. The revenue generated from these taxes is used to fund local public services and government operations.

Taxes typically fund public services and infrastructure projects, such as schools, police and fire departments, road maintenance, and public parks (Thomson et al., 2023). Homeowners are individuals or families who own residential properties, such as houses or condominiums. Owning a home is a significant financial milestone for many people, and it often represents a substantial investment in their future (Ikpuri, 2018).

1.1 Purpose Statement:

Property tax is a vital income source to the state that encompasses several interconnected dimensions, necessitating a comprehensive investigation of research like this. Firstly, this research seeks to understand the financial strain property taxes may impose on individual homeowners, particularly those in various income brackets and demographic groups (Texas et al., 2023). Second, it involves exploring the intricate relationship between property taxes and the affordability of homeownership, considering the broader context of rising housing costs. Lastly, it examines the implications of property taxes on local governments' ability to meet their communities' needs, including potential disparities in service provision.

Addressing this problem is vital for homeowners striving for financial stability and affordable housing and policymakers seeking to design equitable property tax policies and allocate resources effectively at the local level (Hellerstein et al., 2001). By delving into the multifaceted impacts of property taxes on homeowners and economic security, this research aims to inform evidence-based policymaking that can enhance the well being of American citizens and ensure the sustainability of local government finances.

1.2. Research Questions and Objectives:

This research examines the impact of property taxes on the economic security of homeowners in the United States. It also seeks to assess their influence on housing affordability. Additionally, it investigates the implications of economic security for property owners. The study also analyzes the relationship between property taxes and the financial well-being of homeowners. Assessing the direct financial burden and examining the variation of taxes from different income groups do this To evaluate the influence of property taxes on housing affordability. It does this by examining the correlation between these taxes and the cost of homeownership.

These research objectives collectively aim to provide a comprehensive analysis of the impact of property taxes on homeowners and their economic security. It offers valuable insights for policymakers, researchers, and stakeholders regarding housing affordability and government fiscal sustainability in the USA.

2. Literature Review:

2.1. Historical Perspectives and Current Landscape:

Property taxes in the United States have a history dating back to colonial times. In the late 18th century, there were variations in how states and local governments approached taxation (Andrew, 2023). Interestingly, while 14 out of 15 states taxed land, 4 of them taxed inventories: that is, stock in trade. The state of Delaware stood out by taxing the property income of the property itself. Tax policies differed across states during this time (Melanie, 2023). For example, most states subjected all property to taxation with only a few exceptions, while others focused on specific items for taxation. The method of assessment and collection of taxes also varied; some states handled it centrally, while others delegated the responsibility to counties or townships.

States also approached property tax differently. For instance, North Carolina and Vermont based their land taxation on quantity; Rhode Island and New York relied on land value, and Connecticut on land use. This era needed more consistency in tax practices (Colson & Mingzhe, 2017). A significant change took place between 1796 and the Civil War period. During this period, a unifying principle emerged: taxing all types of property uniformly regardless of whether tangible or intangible, visible or invisible, real or personal (Cashin et al., 2018). As a result, property taxes started to be calculated based on the property's value, which was made mandatory in state constitutions. After the Civil War, stocks and intangible assets became more critical, posing challenges for tax authorities in identifying and effectively taxing such assets. As a result, states began exploring alternatives to property taxes at the state level, such as sales taxes and income. However, property taxes remained a primary government revenue source at this level.

Later, during the 1900s, the Great Depression caused hardships that led to rates of non-payment and reduced property tax revenues. Many jurisdictions responded by implementing exemptions for types of properties like homes owned by war veterans. Then, after World War II, some states implemented "circuit breaker" provisions, replacing exemptions to limit increases in property values (Ostapovish et al., 2020). Different economic factors prompted states' taxpayers to initiate measures to reduce property taxes. Notably, California's Proposition 13 of 1978 capped aggregate property taxes at 1% of the total cash value of all properties. It also imposed restrictions on increases in property value by limiting it to 2% per year (Khoroshilova et al., 2020).

Simply put, the history of property taxes in the United States has undergone a transformation characterized by differences across region changes, the tax foundation, and the introduction of taxes. Various events and economic circumstances have influenced these shifts.

3. Methodology:

3.1 Data collection methods:

The methodology provides a structured approach to gathering and analyzing data. This process allows a proper address to the research objectives effectively. It also helps draw meaningful conclusions about the impact of property taxes on homeowners and economic security in the USA. It involves a qualitative approach in data collection and research design to compare further the data obtained from the sample collection. This study used secondary data collection methods and qualitative secondary analysis to analyze qualitative data from government websites, peer-reviewed journals, and published research.

4. Qualitative Result:

The following themes emerged from the qualitative data analysis based on the sampled sources.

4.1 Theme 1: Property Taxes in the US:

The primary revenue source for many local governments in the United States of America is property tax, often referred to as the millage rate. This tax is levied on individual properties or real estate holdings (Hellerstein & Jerome, 2001). Naturally, higher property taxes increase the cost of owning a home, making it less affordable for prospective buyers. In the United States, nearly all sub-state jurisdictions have established taxes on real property interests, including land, buildings, and permanent improvements, as defined by state law. While specific regulations differ from jurisdiction to jurisdiction, common elements are shared among them. In certain areas, taxes are also imposed on specific types of business personal property, notably inventory and equipment.

Researchers from various backgrounds have examined the impact of these property taxes on homeownership from various angles. For example, Chapman, J. I., an American professor (2015), found that rising property taxes could deter homeownership, particularly among low-income households. Another researcher, Coulson, N. (2017), suggested that property taxes can directly influence housing choices. He argued that homebuyers might choose smaller or less expensive properties to minimize their tax liability.

According to a study by Lutz, B., & Molloy, R. (2018), Property taxes can also affect homeowners' economic security, influencing their financial stability and well-being. It showed that property tax burdens may strain homeowners financially, especially those with fixed or limited incomes. The result is decreased savings and lower economic security. Another research by Muisers (2023) found that high property tax burdens could contribute to mortgage default rates, which has long-term economic consequences for those homeowners.

4.2 Theme 2: Impact on Homeowners and Housing Affordability:

The relationship between property taxes and housing affordability is one of the most critical aspects of this research. An investigation by Hsieh and Moretti (2019) found that the impact of property tax limits on housing prices and that caps on property tax rates can lead to an increase in housing demand. Naturally, this would drive up prices with limited supply and potentially reduce affordability. However, Follain (2015) suggested that property tax policies that provide targeted relief to low-income homeowners could alleviate this burden on vulnerable populations and enhance housing affordability without affecting the supply and demand rules of the market.

Property taxes are often bundled into the mortgage payment for homeowners who take up mortgages. Banks and other lenders gather these funds in an escrow account to ensure the timely fulfillment of property tax payments. Any addition or increase in property tax rates can result in housing expenses. As a result, this poses a challenge for homeowners to allocate their budget toward other essential household and professional needs.

Furthermore, increased property tax rates can discourage potential buyers from entering the housing market. For instance, when these taxes make up a large portion of the cost of owning a home, buying a house becomes expensive for individuals and families contemplating owning a property. With unfordable houses, many potential buyers may opt for renting. The impact of property taxes on housing affordability is largely more pronounced in high-cost housing markets. More often than not, these taxes represent a significant portion of the homeowner's monthly budget.

As a result, such properties become more expensive. For example, San Francisco Bay Area property taxes can account for up to 20% of monthly mortgage payments. With such high taxes, it becomes more challenging for Americans to afford homes (Ikpuri, 2023). Additionally, since these taxes are typically factored into the cost mortgage cost, the down payments and monthly payments increase.

High property taxes may also make it difficult for homeowners to keep their homes. Since the taxes are billed annually, they may be too high for homeowners to afford, leaving them to foreclosure (Chapman, 2015).

Property taxes are among the significant expenses for homeowners in the USA. For instance, in 2021, the average effective property tax rate was 0.73%. That means the ordinary American paid 0.73% of their home's assessed value to the government. It is worth noting that these taxes vary widely from state to state. For instance, New York, Connecticut, and New Jersey have the highest property tax rates, while Hawaii, Alabama, and Colorado have the lowest (Mishchuk, 2020; Alexandrov et al, 2020). Property taxes determine the assessed market value of a home. That means that the more valuable a home is, the higher the taxes will be. As a result, the high-cost property market tends to have higher tax rates. All these underscore the additional strain on household budgets and make housing less affordable, especially for first-time buyers and those with lower incomes.

4.3 Theme 3: Tax Levy:

US property taxes typically are payable only when the relevant taxing authority has assessed and issued a tax bill. The method of assessment and billing can vary. Typically, it involves sending a tax bill to the property owner or the mortgage company. Local government taxing authorities offer diverse strategies that property owners can utilize to lower their tax obligations (Daphne et al., 2011). Almost all jurisdictions grant homestead exemptions to decrease the taxable value and, consequently, the tax liability on a homeowner’s residence. Many jurisdictions also extend further exemptions to veterans.

Additionally, taxing authorities may grant permanent or temporary exemptions, in whole or in part, from property taxes. These extensions often come as an inducement for specific businesses to establish their operations within a jurisdiction. Some jurisdictions extend comprehensive property tax exemptions to businesses in designated areas, such as enterprise/industrial zones.

The most notable tax exemption pertains to nonprofit organizations, as all 50 US states exempt entirely these entities from local and state property taxes. One study conducted in 2009 estimated that this exemption results in a loss of tax revenue ranging from $17 billion to $32 billion annually. These exemptions can be substantial in scale (Daphne et al., 2011). For instance, in New York City alone, a study by the Independent Budget Office revealed that religious institutions would have faced an annual tax liability of $627 million if not for these exemptions. In the fiscal year July 1/2011, to June 30/2012, all property tax-exempt groups collectively avoided paying $13 billion (New et al., 2011).

4.4 Theme 4: Local Government Services and Property Taxes:

Property tax revenue plays a crucial role in funding local government services. Various researchers have explored the link between these taxes and the provision of essential services to the public. For example, Ebel, R., in a (2017) study, discussed the challenges local governments face in balancing the need for property tax revenue with the demand for public services. He emphasized balancing the two factors to ensure community economic security.

In another study by Fisher (2018) on the impact of property taxes on local government budgets, it was found that significant changes in property tax rates can significantly affect the ability of locals to provide essential services. They can also affect the economic security of residents under these tax rates.

5. Policy Implications:

Various researchers and policymakers have proposed several policy recommendations to address the impact of property taxes on homeowners and economic security. For example, O'Sullivan, A., & Sexton, T., in a (2020) study, discussed the potential benefits of property tax reform. This included adopting more equitable assessment practices and relief mechanisms for vulnerable homeowners. Brueckner, J., an American economist in a (2019) study, suggested that policymakers should consider alternative revenue sources for local governments to reduce reliance on property taxes (Ikpuri, 2018). According to him, this could alleviate the burden on homeowners.

One of the most popular strategies some US states employ is offering homestead exemptions. This tax credit or tax break reduces the taxable value of a homeowner's primary residence. Such exemptions can relieve many property owners, particularly those with lower incomes. Paying less in property taxes means saving more money each month. The amount of a homestead exemption can vary from state to state. In some, it is based on the owner's income, while in others, it hinges on the homeowner's age or the property's value.

However, addressing property tax-related issues requires carefully considering existing policies or proposed reforms. According to Padalkin et al., 2019, policymakers should vigorously evaluate strategies to improve fairness in assessing or distributing property tax burdens among homeowners.

Conclusion

Understanding the weight of property taxes on homeowners and economic security in the USA is essential for policymakers seeking to balance revenue generation and housing affordability. By carefully evaluating existing policies or proposed reforms, they can ensure a fair and sustainable tax system that promotes economic security for Americans nationwide. That is because these property taxes impact homeowners' financial well-being and housing affordability, potentially contributing to disparities among different groups. Furthermore, they have economic implications that influence local economies, real estate markets, investment decisions, and housing supply.

Limitations of the Study:

The study was dependent on past research, which had individual limitations that could compromise the conclusions of this study.

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