Property Taxation in Government Finance

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Foreword

This study has been designed to aid in a general understanding of property taxation. Although many Americans have some direct familiarity with the property tax where they live, responsible citizen action requires a broader knowledge.

Property taxes as they are actually imposed, differ considerably, not only from one part of the country to another but also within the same state and at times within a metropolitan area. Some of the tax, notably that falling on public utility and other business property, is largely hidden and easily overlooked — but nonetheless deserving of attention. The quality of administration varies substantially; defective administration has implications for equity and economic results which need attention. And, of course, any tax as heavy as is property taxation in many localities will have economic effects of significance beyond the raising of revenue.

The factual evidence presented here will enable the reader to get a better perspective than is possible from direct experience in one community or from the typical references in public discussions. Because of the unusual aspects of actual application of this tax, the study deals with major administrative problems. Readers can thereby learn about the possibilities for improvement.

Modern economic analysis of property taxation has confirmed some conclusions of long standing while leading to some modification of others, such as shifting and incidence. Although uncertainties remain, the study attempts to do justice within necessarily limited scope to current thinking. A discussion of possible alternatives for improving property taxation will, it is hoped, contribute to citizen ability to advance the important goal of better government.

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Tax Foundation, Inc., is a publicly supported, non-profit organization, founded in 1937 to engage in non-partisan research and public education on the fiscal and management aspects of government. Its purpose is to aid in the development of more efficient and economical government. It serves as a national information agency for individuals and organizations concerned with problems of expenditures, taxes and debt.

C. Lowell Harriss
November 1974

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I.
Summary

Property taxation, yielding $47.2 billion in 1973, continues to be a major source of revenue for local governments. Their viability and independence may well depend upon their ability to utilize this source, one not used at all by the Federal government and only slightly by a few states. Property taxation as it actually exists differs greatly from state to state and within states. Therefore, generalizations must be used with caution.

The tax applies to real property, land and buildings, and in most states to the machinery and inventory of businesses. It does not apply to the tangible personal property of families (except in some cases autos) or to intangible personal property. The average burden per capita in 1972 was $202 and $49 per $1,000 of personal income, but amounts differed widely. Revenues more than doubled in the last decade, giving evidence of upward elasticity.

Administration in most states is a local responsibility. The quality differs greatly. In much of the country inequality of assessment continues to be high, but in some places substantial progress has been made in reducing disparities. Administration rests heavily upon the judgments of assessors as to value. Improving the quality of assessments requires action of several kinds. Among other things, many assessing districts should be enlarged to permit the operation on a scale large enough to be efficient. Professionalization of staff is needed to permit the development of career opportunities based on merit. Other needs are protection against political pressures to reduce assessments and an increase in the availability of various kinds of data which help to indicate value. Computers can be used effectively in some aspects of mass appraising. Specialized commercial firms can serve usefully in major reassessments. Facilities for the appeal of proposed assessments can be improved in many cases.

Economic analysis leaves some doubt about how the burden of the tax is actually distributed. Economically, "the" property tax consists of two markedly different elements. One bears on land, the other on man-made capital. Because the supply of land is largely fixed by nature economists conclude that the tax on pure land values is capitalized into lower land price and thus rests on the owner of land at the time the tax goes into effect. In contrast, the tax on buildings, machinery, and other man-made capital will influence the quantity of the productive resource, including housing and public utility facilities. Therefore, some or much of the tax will be a cost to businesses and the suppliers of rental housing, a cost which is shiftable to the user. But some of the tax may not be passed on to consumers; this portion will reduce the after-tax net returns to investors and will thus rest on the suppliers of capital.

Whether the burden of the property tax is predominantly proportional with income, bears relatively more heavily on lower income families (regressive), or increases as a percentage of income up the income scale (progressive) remains subject to debate. Facts undoubtedly differ from one community to another as do the magnitudes of the burdens. Estimates resting on two alternative assumptions about shifting are presented. Recent relief provisions ("circuit breakers") moderate, sometimes substantially, the burden on lower-income families, especially those over age 65.

Property taxation in much of the country is at rates high enough to have effects which are significant beyond the revenue yielded. The tax influences the use of land, competition for industry, community growth, and the maintenance and modernization of housing and business facilities. High tax rates increase pressures for exemption and may powerfully affect incentives for zoning and other determinants of development over metropolitan areas. Because of the local nature of property taxation, including actual administration, the effects (other than revenue yield) differ from one area to another. But relatively heavy burdens – such as 3 or 4 percent a year on full capital value – on new man-made capital must deter construction of new housing and business facilities.

Opportunities for improving property taxation include many aspects of administration. Achievements in several places demonstrate that assessment can meet standards very much higher than are being tolerated in most of the country.

Proposals for basic restructuring of the tax have support which rests on widely accepted economic analysis. Tax rates on man-made capital would be reduced and much more of the revenue needs would be met from tax on land values. One result would be encouragement of modernization and expansion of housing and new production facilities. Furthermore, local treasuries would get more of the fruits of community development ("unearned increments" as distinguished from values which result from imputs of effort and capital); this result would conform to some concepts of tax equity and justice. Moreover, owners of land would be under more pressure to put it to "higher and better use," as contrasted with "underuse" which may be dominated by hope for speculative gain due to community growth.

Court decisions on school finance have criticized the inequalities of taxable property per child in school. The U. S. Supreme Court decided that the problem remains one for state action.

II.
Description

Current reexamination of the role of property taxation raises old issues in a modern setting. And some issues are new. For generations this tax has been the mainstay of local government finance. During this period it has changed in many ways. Today, as it actually operates, property taxation varies tremendously from place to place. In the society as a whole, however, the tax has an important role. Through the foreseeable future it will continue to be significant and to deserve efforts to make it as good as possible.

This study will describe property taxation as it exists and its role, not only in financing government but also the effects it exerts beyond those of revenue alone. Suggestions for improvement in administration and major restructuring conclude the discussion.

Among the issues relevant to an examination of the future of property taxation are: the viability of meaningful local government with significant autonomy; school finance; the extent to which rises in land prices are used to finance government; aspects of land use, including open spaces; urban-suburban life; the nature of city growth and rebuilding; and the environment. Space limits here, however, confine the discussion to selected issues.

An opinion survey conducted for the Advisory Commission on Intergovernmental Relations (ACIR) found property taxation to be more disliked than other taxes. To some extent, certainly, such dislike results not so much from characteristics of the tax compared with those of other taxes as from the increase in burdens. This rise has, among other things, revealed a greater power to produce revenue than was widely assumed for many years.

The tax is imposed on capital values. Actual rates range widely. In areas containing most of the country's assessed valuation, the annual tax exceeds 2 percent a year of full capital value. In many places the rate is significantly over 3 percent a year. In some – Boston, Newark, New York City, etc. – it is above 5 percent. Such rates applied each year to full capital value will exert great influence on investment, capital formation, and the use of property.

Revenue and Current Burden

Table 1 shows the rise in total yield, from \$16.4 billion in the calendar year 1960 to \$47.2 billion in 1973. (The annual rate estimated in mid-1974 was \$51 billion). The tax takes more from taxpayers than ever before – more per capita, even when adjusted for inflation. The 1973 national total was \$225 per capita, or \$900 for a family of four on the average (up from \$173 per capita in 1973 dollars in 1965 and \$137 in 1960). Table 2 shows amounts by state,

Table 1

Property Tax Revenues in Relation to Net National Product

Selected Calendar Years, 1929-1973

Year	Property tax: Total (billions)	Property tax: Per capita	Net national product (billions)	Property taxes as percent of net national product
1929	$ 4.7	$ 39	$ 95.2	4.9
1936	4.2	33	75.4	5.6
1944	4.7	35	199.1	2.4
1950	7.4	49	266.4	2.8
1955	10.8	66	366.5	2.9
1960	16.4	91	460.3	3.6
1963	20.9	111	537.9	3.9
1965	23.9	123	625.1	3.8
1970	37.5	184	889.8	4.2
1971	41.3	200	961.6	4.3
1972	44.1	212	1052.8	4.2
1973	47.2	225	1179.1	4.0

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

per capita. Differences are large. In 5 states the per capita amount was over $275, while in 16 it was under $125.

Relating the tax to personal income may provide a more meaningful basis for comparing actual burdens. The U. S. average in 1972 was $49 per $1,000 of personal income; 17 states were under $35 and 10 states were over $60. Table 2 also shows interstate variations in the role of the property tax. In 7 states property tax revenues accounted for one-half or more of all state-local taxes; in 12 states the property tax share was no more than one-fourth.

Within many states the variations of burden, by significant measures, are wide. Such intrastate variations account for some of the attacks in court, and the judicial decisions of recent years, against heavy reliance on property taxation to pay for education.

Table 1 also relates property tax revenue nationwide to Net National Product. At the end of World War II this measure was at an all-time low. A continual but slow rise has brought the percentage to 4.0, not quite that of the 1920's.

Local expenditures, however, have risen much more rapidly than yields from the property tax. Other local revenues, chiefly state and Federal grants, have gone up so that the relative importance of property taxation has lagged behind its dollar increase.

What the Property Tax Is – and Is Not

Local Revenue Source

The tax is a revenue source for *local* government. The people in a community have this means of paying for services they want. With some exceptions the tax meets one criterion of justice because on a geographical basis the benefit principle applies. The group that pays gets the benefits. It is not

Table 2

State and Local Property Tax Collections by State Fiscal Year 1972

State	Property taxes per capita	Property taxes per $1,000 of personal income	Property taxes as percent of state-local taxes
U.S. Average	$202	$49	39
Alabama	43	14	14
Alaska	107	23	23
Arizona	196	52	39
Arkansas	75	25	24
California	327	71	48
Colorado	204	51	41
Connecticut	308	62	49
Delaware	99	21	17
Florida	143	38	33
Georgia	120	34	31
Hawaii	121	27	19
Idaho	142	43	35
Illinois	237	50	41
Indiana	220	55	50
Iowa	229	59	46
Kansas	225	54	49
Kentucky	74	23	21
Louisiana	77	24	18
Maine	204	61	43
Maryland	175	39	32
Massachusetts	324	71	51
Michigan	223	51	39
Minnesota	232	58	40
Mississippi	78	28	23
Missouri	158	40	37
Montana	257	72	50
Nebraska	228	57	50
Nevada	210	45	35
New Hampshire	248	66	58
New Jersey	310	65	56
New Mexico	86	27	21
New York	290	58	37
North Carolina	94	28	25
North Dakota	177	50	41
Ohio	180	43	43
Oklahoma	100	29	27
Oregon	223	57	48
Pennsylvania	145	35	28
Rhode Island	201	49	39
South Carolina	79	25	23
South Dakota	248	73	54
Tennessee	94	29	27
Texas	147	40	38
Utah	149	44	35
Vermont	215	60	38
Virginia	118	31	28
Washington	193	47	36
West Virginia	82	25	21
Wisconsin	258	67	43
Wyoming	252	65	49
District of Columbia	189	32	31

SOURCE: U.S. Department of Commerce, Bureau of the Census, and Tax Foundation computations.

forced to pay for services to persons elsewhere.

The effectiveness of local government — as distinguished from centralization with decisions made by a more remote body — will depend heavily upon financial independence. In property taxation communities have a considerable base of finance to use if and as they wish.

State governments once relied on property taxation. By the end of the 1930's, however, almost all states had turned this source over for the use of localities. Although states now get some property tax ($1.3 billion in 1972), in only five did it bring as much as one twentieth of state tax revenue.

Usually at least three units of government — school districts; city, town, village; and county — sometimes more, tax the same property. An estimated 66,000 separate units of government impose the tax.

Almost everywhere the property tax applies to real estate — land and buildings — and to business-owned tangible personal property, i.e., machinery and inventory. In only a few areas is the tax applied to a significant extent to the personal property of individuals. Table 3 shows for 1972 the amounts and percentage distribution of property tax payable to local governments on major types of property.

The description which follows cannot discuss all features as fully as would be desirable for understanding all the issues of importance. Nor can we possibly give recognition to the wide diversity over the country.

Many Differences from Place to Place

The revenue and burden of the property tax vary considerably from locality to locality. Moreover, in the definition of what is taxed, in administration — in all respects — the tax as actually in effect differs greatly due in part to its local nature.

From one generation to the next, beginning in the colonial era, property taxation has evolved. It has changed from time to time and place to place. The same term has applied to taxes which differ from each other widely — in theory and in practice. More often than not, what actually existed as a revenue source departed in many ways from what the law seemed to call for. Such is still the case in some states.

Differences in economic conditions affect the influence of the tax. Some areas are rural, others urban; some communities are old, others new; some have much business property, others are largely residential. Such contrasts affect the actual importance of property taxation. Although almost every homeowner may believe that the tax on his house is "high," the effective rates in some places, as suggested by differences in state averages (Table 2), are only a fraction of those in other areas.

Economically Two Taxes, Not One

To understand what property taxation really is, and especially to evaluate possibilities for improvement, one must recognize a vital economic distinction, rarely made clear.

In a fundamental economic sense, "the" tax is not one but two. One applies to land, the other to man-made capital (buildings, machinery, and other items such as commercial inventories). These two differ basically in their economic effects. Land is largely fixed in quantity. Man-made capital must be built and maintained. Land will not move from one place to another. A

Table 3

Estimated Local Property Tax Collections By Source, 1972[a]

Source	Amount (millions)	Percentage distribution
Nonbusiness		
Nonfarm residential realty[b]	$19,023	47.3
Farm realty[c]	817	2.0
Vacant lots	320	0.8
Total nonbusiness realty	20,160	50.1
Nonfarm personalty[d]	657	1.6
Farm personalty[d]	113	0.3
Total nonbusiness personalty	770	1.9
Total nonbusiness	20,930	52.1
Business		
Farm realty[e]	1,860	4.6
Vacant lots	480	1.2
Other realty[f]	9,170	22.8
Total business realty	11,510	28.6
Farm personalty[g]	454	1.1
Other personalty[h]	4,287	10.1
Total business personalty	4,741	11.8
Public utilities	3,019	7.5
Total business	19,270	47.9
Total	40,200[i]	100.0

a. ACIR staff estimates bases on estimated 1972 collections distributed on basis of 1967 Census data, latest available statistics.
b. Includes both single-family dwelling units and apartments. An estimated $14 billion, or 36 percent of all local property taxes, was derived from single-family houses; about $5 billion or 12 percent of property tax revenue came from multi-family units.
c. Estimated collections from the taxation of the "residential" element of the farm.
d. The collections produced through the taxation of furniture and other household effects.
e. Estimated collections from the taxation of land and improvements actually used in the production of agricultural products – this is exclusive of the land and buildings used in a residential capacity by the farmer.
f. Commercial and industrial real estate other than public utilities.
g. The estimated collections from the taxation of livestock, tractors, etc.
h. Estimated collections from the taxation of merchants' and manufacturers' inventory, tools and machinery, etc.
i. This is the estimated grand total for local property tax receipts. In addition, there is an estimated $1.3 billion in state property taxes. The data needed for a similar distribution of state receipts are not available.

SOURCE: Advisory Commission on Intergovernmental Relations.

"high" tax on buildings and machinery will raise costs to the user and restrict supply. Getting the same dollars of revenue from land will not reduce the supply.

Later we shall say more about the significance for government finance. But let us remember: Property taxation consists of elements which are combined in name and in administration but which produce significantly different results as dollars come (1) from values of man-made capital or (2) from land values.

"Only People Pay Taxes"

People, not things (not gasoline or cigarettes or businesses or real estate), pay taxes. Property taxation must be thought of as a device to *tax people* according to their *ownership* or use of property. The use may be direct, as in the case of housing, whether a family is an owner or a renter; however, much use of taxed property is indirect. As *consumers* we get benefits from the buildings and machinery which help in producing goods and services. As *workers* we utilize land, machinery, buildings, and telephone and electric facilities.

As we *invest* our *savings,* they go into property to bring income. We may buy an income-producing piece of real estate and pay property tax. Often, however, we turn over savings to an institution or sometimes to a business, getting thrift accounts or shares of stock or other securities. These "pieces of paper" have worth because behind them are facilities – solid, tangible things; and these are subject to the property tax.

What Is Taxed?

Real property – land and buildings – makes up the vast bulk of what is taxed. Numerous differences of definition of real property and special provisions regarding minerals, growing crops, timber, and other aspects affect the details of the tax as it actually applies.

All but five states (Delaware, Hawaii, New York, North Dakota, and Pennsylvania) also permit localities to tax *tangible personal property* of businesses – machinery, airplanes, computers, trucks, a store's inventory on its shelves, the parts on a factory assembly line, desks, cattle, stored crops. Personal property of households – furniture, jewelry, art objects, clothing – is rarely taxed (except for autos, for which the annual license can be used to enforce a property tax).

Intangible personal property – such as stocks, bonds, mortgages, deeds to real estate, bank balances – only rarely give rise to significant property taxation. Such intangibles generally represent claims to tangible property which in itself *is* taxed. To tax a homeowner on his house and then also on the deed which shows his title to the property would be to tax the same value twice. Much the same applies to other securities. As a rule, therefore, governments limit the tax to tangible property. That is, they do not as a practical matter also try to tax the pieces of paper which show ownership of those things or, as in the case of a bond, a piece of paper showing a debt claim. Federal government bonds are exempt on constitutional grounds.

In the past, it is true, efforts have been made to apply the property tax "doubly," both to tangible wealth and paper showing ownership. The efforts generally failed because of the almost insuperable difficulty of administering a tax with no true economic "rationale." Investment funds will be repelled from areas imposing a "second" burden.

The tax rests upon an estimate of *value.* In determining the tax payable, the physical characteristics of a piece of real estate – large or small, modern or deteriorated, center of town or farther out – are not taken into account except as they influence worth.

Relates to Property Rather than to Personal Position

This tax is *ad rem,* not *in personam.* Ordinarily, it relates to the property as such without regard for characteristics of the owner – family income, occupation, age, profit, sales, or other aspects of an individual's or a company's status or affairs. Yet, as discussed later, some characteristics of owners will make the property exempt.

Two points need to be noted. They may help in understanding the arguments about the fairness of property taxation, as compared with other revenue sources.

Not a Net Wealth Tax. The tax is not a levy on individual or family *net* wealth. There is no systematic adjustment of burden according to net worth. The amount of debt against a house, for example, will not affect the tax due from the owner. Two neighboring houses may each be worth $30,000. One owner may have no debts so that his ownership (equity) in the house is its full value. The other may owe a mortgage of $25,000 so that his equity is $5,000. The property tax may be the same in the two cases.

The tax on business property is collected from the company without regard to possible differences in the ability to pay of the owners of the shares of stock or the consumers to whom the tax may be shifted. The rationale for the tax does not rest upon a presumed adjustment of burden to a person's net worth or to his net income – nor does the tax rest on his total consumption as do broadly based sales taxes.

Presumably the government *services received* by residents of the community relate much more closely to the property used there than to the net investment (worth) of the owners. To the persons living and owning property in a locality, the benefits they get from local expenditures do not depend upon the net ownership above the debts of the various families.

Assume, for example, two communities which have much the same total value of real estate per capita, including about the same number of dwellings. In one, however, the owners have paid off a large fraction of the mortgage debt. The second has more newcomers who still owe relatively large amounts. The homeowners in the two towns have considerably different net worth in their houses. Nevertheless, they may get about the same in services from local government. So essentially equal taxes may in a logical sense be fair and equitable.

Not an Income Tax. Nor is the property tax an income tax. Criteria which we believe to be appropriate for judging net (or gross) income taxation are not necessarily the best for evaluating property taxation. Although payment ordinarily comes out of income from some source – homeowner's salary, a company's sales – the tax base is gross capital value. The value of a piece of property, of course, relates to the "income" from it – (1) the present money income plus (2) the worth of current services (imputable income, such as the value of occupancy by an owner) plus (3) the present worth of the expected benefits to be received in the future – *i.e.*, the future income and other benefits discounted to their present value.

Today's money income is not the only thing affecting the worth of a piece of property. Increments of value to be realized later – *e.g.*, from community growth – are at times an important part of what the owners "receive." Actual and potential owners try to take account of such increases in their decisions. Current cash income may be of far less weight in determining the worth of land than are hopes for the future. Increments of land value can be significant long before they are realized by sale. Property tax assessment will not be correct if it ignores them.

Table 4

Exempt Property by Type, Percentage Distribution, 1971

16 States and the District of Columbia[a]

Type	Percent of total exempt property
Religious	10.4
Education	12.1
Charitable	3.1
Government	58.6
Other	15.8

a. The states for which figures were obtained are Arizona, California, Florida, Hawaii, Indiana, Kansas, Louisiana, Massachusetts, Minnesota, Nevada, New Jersey, New York, Ohio, Oregon, Rhode Island, and South Dakota.

Source: **1972 Census of Governments,** Vol. 2, Part 1, p. 14.

Exempt Property

Widespread uneasiness about exempt property has not yielded agreement on what would be desirable and feasible. Figures are incomplete partly because assessors have little reason to devote time and energy to accurate listing and valuation of property on which no tax will be due. Table 4 shows the percentages of total exempt property by major types for 16 states and the District of Columbia.

Governmental. Governmental property takes up the largest group. A local government's exemption of its own property seems sensible. What would be gained by taking money out of one pocket – taxing streets and the fire houses, schools and parks – to put in another pocket? Although to require taxes seems foolish, there is one good reason to require careful estimates to show the worth of exemption on governmental property. The figures would help in judging (1) the value of resources used in providing various governmental services and (2) the relative costs of alternative locations.

Additional problems arise when the property of one governmental jurisdiction lies within another – a state highway or a post office or a Federal hospital in a school district. Exempting such property may be often required by either the constitution or statutes. Nevertheless, figuring the dollar cost of the exemption can serve useful purposes. Otherwise, the full costs of services from the exempt property cannot be known. Moreover, a good statement of the amount exempted will help in getting governments to see how much their own activities take off the tax roll and perhaps prod them toward making more adequate compensation payments in lieu of taxes. Some communities have relatively more exempt property of other governments than do others; fairness as well as efficiency in resource allocation could be served by better accounting of the cost of exemption. Furthermore, intergovernmental financial relations could benefit from the development of more extensive and more refined payments in lieu of taxes; practices now differ greatly.

Exemption of governmental property used for business-type purposes creates inequalities in competition where taxpaying and exempt organizations are rivals.

Religious, Education, and Other Non-Profit. When possible change in the exemption of church property is discussed, questions of the separation of church and state arise. Even assuming no constitutional obstacles, relatively few Americans would probably favor taxing property used directly for religious purposes.

However, some charges for specific governmental services to churches and other exempt organizations may be favored without violating a basic principle. It may be appropriate to bill for garbage collection, water and sewer services, paving, policing for special events, and perhaps other local services directly benefiting organizations which are generally exempt. Yet would the organizations have ability to pay without hampering their basic functions?

Exempt organizations may own real estate for income-producing purposes – investment properties or operations which use buildings and machinery for business-type activities. Denying exemption in such situations is common. The logic of imposing tax includes the fact that land in the community which is used for one purpose is not available for other uses – and the local government must have a tax base.

Not-for-profit hospitals, educational institutions, libraries, art centers, and other properties are generally exempt on property used in the central purposes of the activity. The reasons for exemption differ somewhat among kinds of organizations.

In most cases the activities have public or quasi-public aspects – benefits to groups which may be large in relation to the whole public and get services below costs or even free. Supporters of exemption point out that in some cases government would be called upon to do what the private organizations are doing. The non-governmental use of property serves purposes which are of advantage to many people and make for a better community. To tax the institutions would add to operating cost and curtail their ability to serve the public.

Business-Type Property. Direct and indirect exemptions are granted increasingly for some property of businesses as a means of building the economic base. The community may itself or through a special development authority own land and buildings. Exemption is automatic. The funds used for financing may also be exempt from Federal income tax. The terms for leasing to private companies can pass on to them the benefits of tax exemption. New producers may be welcome. They will, it is hoped, offer more and better jobs and higher incomes for the community. Property tax exemption may contribute to the goal, although what one community gains another may lose. Computations of benefit relative to costs are complex for any one locality and even more so for the country as a whole. The effects on competition among communities are subject to debate, but companies that pay the full tax must face some disadvantages.

The granting of tax exemption to property used to reduce pollution by businesses has increased. The public may want to improve the environment or at least prevent it from getting worse. Government requests or compels businesses to install new equipment to reduce pollution. Is it not foolish in such cases to add to the expenses of operation by imposing a property tax? Businesses are limited in their ability to bear costs. The public purpose, it would seem, is advanced by avoiding tax-created obstacles to the investment in the new equipment. Such equipment does not impose added service burdens on local government; nor do companies get the benefits of more and better public services. But the additions may combine better pollution control features with others for expansion or for improving efficiency. Then if machines and equipment are generally to be taxed, there may be difficulty in judging the fraction which would be appropriate for exemption.

Homestead and Personal-Type Exemptions. Exemption for "homesteads" is important in some states. Some date from the depression of the 1930s. Part of the value of a house occupied by its owner is exempt from the tax. Although for the country as a whole the amounts are not large – 3.2 percent of gross assessed value according to the 1972 Census – in a few states the figure was much larger, as shown for the six in which the percentage removed from the base is greatest.

Mississippi	23.5
Louisiana	20.0
Florida	15.3
Hawaii	14.4
Oklahoma	14.4
Georgia	11.7

A few states also allow limited exemptions for veterans and for some others, such as widows and the blind. Details differ greatly. In some cases the amounts are more than minor in relation to tax. As a rule the exemption does not adjust for need on the part of the beneficiary. Therefore, this means of granting relief is crude and can be expensive in terms of cost to the treasury. More refined methods called "circuit breakers" grant tax relief without the broad and relatively costly features of the homestead exemption; they are discussed later.

Classification versus Uniformity

Many state constitutions include in their *ad valorem* tax sections some type of "uniformity rule." For example, Pennsylvania's Constitution provides "all taxes shall be uniform upon the same class of subjects within the territorial limits of the authority levying the tax. . . ." The basic standard is that the tax shall apply uniformly although some exceptions are always found, such as the exemption of property used for religious purposes.

Several states, however, by explicit constitutional provision or statute provide for "classification." Properties are separated into two or more classes and subject to different treatment. Certain groupings of property may be assessed at smaller percentages of full market value than are others. For example, Minnesota assesses unmined iron ore at 50 percent of market value, most residential realty at 40 percent, most machinery at 33⅓ percent, and so on. To achieve the same result, a state may specify rates which differ among classes of property. Oregon, for example, taxes forest lands west of the Cascade Mountain summit at 10 cents per acre, those to the east at 5 cents per acre.

The objectives differ – to provide incentives or reduce disincentives, to favor certain groups, or to simplify administration. The result is to vary the tax per dollar of value.

Railroad, Public Utility, Bank, Insurance Company, and Some Other Business Property

Space limits make it impossible to attempt to summarize here the many special problems of applying *ad valorem* taxation to the property of railroads; telephone, electric, gas and other public utilities; banks, insurance companies, and certain other financial institutions; mines and growing timber; and some other examples of tangible property. Frequently, responsibility for administration will be put upon a state agency rather than on the many localities.

Valuation often presents exceptional difficulties, perhaps because of the highly specialized nature of some structures and equipment. Or in some cases the physical assets may represent a large investment of capital and labor;