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# 50-State Property Tax Comparison Study: For Taxes Paid in 2019

Executive Summary

By Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence
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As the largest source of revenue raised by local governments, a well-functioning property tax system is critical for promoting municipal fiscal health. This report documents the wide range of property tax rates in more than 100 U.S. cities and helps explain why they vary so widely. This context is important because high property tax rates usually reflect some combination of heavy property tax reliance with low sales and income taxes, low home values that drive up the tax rate needed to raise enough revenue, or higher local government spending and better public services. In addition, some cities use property tax classification, which can result in considerably higher tax rates on business and apartment properties than on homesteads.

This report provides the most meaningful data available to compare cities' property taxes by calculating the *effective tax rate*: the tax bill as a percent of a property's market value. Data are available for 73 large U.S. cities and a rural municipality in each state, with information on four different property types (homestead, commercial, industrial, and apartment properties), and statistics on both net tax *bills* (i.e. $3,000) and effective tax *rates* (i.e. 1.5 percent). These data have important implications for cities because the property tax is a key part of the package of taxes and public services that affects cities' competitiveness and quality of life.

## Why Property Tax Rates Vary Across Cities

To understand why property tax rates are high or low in a particular city, it is critical to know why property taxes vary so much across cities. This report uses statistical analysis to identify four key factors that explain most of the variation in property tax rates.

Property tax reliance is one of the main reasons why tax rates vary across cities. While some cities raise most of their revenue from property taxes, others rely more on alternative revenue sources. Cities with high local sales or income taxes do not need to raise as much revenue from the property tax, and thus have lower property tax rates on average. For example, this report shows that Bridgeport (CT) has one of the highest effective tax rates on a median valued home, while Birmingham (AL) has one of the lowest rates. However, in Bridgeport, city residents pay no local sales or income taxes, whereas Birmingham residents pay both sales and income taxes to local governments. Consequently, despite the fact that Bridgeport has much higher property taxes, total local taxes are considerably higher in Birmingham ($2,899 vs. $2,188 per capita).

Property values are the other crucial factor explaining differences in property tax rates. Cities with high property values can impose a lower tax rate and still raise at least as much property tax

revenue as a city with low property values. For example, consider San Francisco and Detroit, which have the highest and lowest median home values in this study. After accounting for assessment limits, the average property tax bill on a median valued home for the large cities in this report is $3,206. To raise that amount from a median valued home, the effective tax rate would need to be 23 times higher in Detroit than in San Francisco – 6.21 percent versus 0.27 percent.

Two additional factors that help explain variation in tax rates are the level of local government spending and whether cities tax homesteads at lower rates than other types of property (referred to as "classification"). Holding all else equal, cities with higher spending will need to have higher property tax rates. Classification imposes lower property taxes on homesteads, but higher property taxes on business and apartment properties.

**Homestead Property Taxes**

There are wide variations across the country in property taxes on owner-occupied primary residences, otherwise known as homesteads. An analysis of the largest city in each state shows that the average effective tax rate on a median valued homestead was 1.395 percent in 2019 for this group of 53 cities.[1] At that rate, a home worth $200,000 would owe $2,790 in property taxes (1.395% x $200,000). On the high end, there are four cities with effective tax rates that are at least 2 times higher than the average – Aurora (IL), Bridgeport (CT), Newark (NJ), and Detroit. Conversely, there are seven cities where tax rates are half of the study average or less – Honolulu, Boston, Charleston (SC), Denver, Cheyenne (WY), Birmingham (AL), and Nashville.

**Highest and Lowest Effective Property Tax Rates on a Median Valued Home (2019)**

| **Highest Property Tax Rates** | | | | **Lowest Property Tax Rates** | | | |
|---|---|---|---|---|---|---|---|
| 1 | Aurora (IL) | 3.30% | *Why:* High property tax reliance | 49 | Cheyenne (WY) | 0.65% | *Why:* Low property tax reliance |
| 2 | Bridgeport (CT) | 3.21% | *Why:* High property tax reliance | 50 | Denver (CO) | 0.56% | *Why:* Low property tax reliance, classification, high home values |
| 3 | Newark (NJ) | 3.02% | *Why:* High property tax reliance | 51 | Charleston (SC) | 0.52% | *Why:* Classification shifts tax to business, High home values |
| 4 | Detroit (MI) | 2.93% | *Why:* Low property values | 52 | Boston (MA) | 0.49% | *Why:* High home values, Classification shifts tax to business |
| 5 | Portland (OR) | 2.46% | *Why:* Assessment limit shifts tax to newly built homes | 53 | Honolulu (HI) | 0.31% | *Why:* High home values, low local gov't spending, classification |

Note: Data for all cities: Figure 2 (page 19), Appendix Table 1a (page 52), and Appendix Table 2a (page 60).

The average tax rate for these cities fell 3.5 percent between 2018 and 2019, from 1.446 percent to 1.395 percent, with decreases in 32 cities and increases in 21 cities. The largest increases were in Fargo and Indianapolis at 11 percent, followed by Charleston (WV) at 10.5 percent. New Orleans, Louisville, and Oklahoma City all exceeded a 5 percent increase. The three largest decreases were in Providence (28 percent), Atlanta (20 percent), and Anchorage (15.5 percent) as all three cities increased homestead exemptions in 2019. Providence dropped eight places from 14th to 22nd; Atlanta dropped six places from 35th to 41st; and Anchorage dropped seven places

[1] The largest cities in each state includes 53 cities, because it includes Washington (DC) plus two cities in Illinois and New York since property taxes in Chicago and New York City are so different than the rest of the state.

from 21st to 28th. The next largest percentage declines were in Nashville, Seattle, and Kansas City. Although the Los Angeles effective tax rate dropped just 1.8 percent, that was enough to drop 6 places from the 27th to 33rd highest rate.

Note that differences in property values across cities mean that some cities with high tax *rates* can still have low tax *bills* on a median valued home if they have low home values, and vice versa. For example, New York City and Wichita both have effective tax rates of 1.18 percent on median valued homes, but because the median valued home is worth so much more in New York ($645k vs. $140k), the tax bill is far higher in New York (3rd highest) than in Wichita (47th highest).

Effective tax rates rise with home values in about half of the cities (26 of 53), and this pattern has a progressive impact on the property tax distribution. Usually, this relationship occurs because of homestead exemptions that are set to a fixed dollar amount. For example, a $20,000 exemption provides a 20 percent tax cut on a $100,000 home, a 10 percent cut on a $200,000 home, and a 5 percent cut on a $400,000 home. The increase in effective tax rates with home values is steepest in Boston, Atlanta, Honolulu, New Orleans, and Washington (DC).

**Commercial Property Taxes**

There are also significant variations across cities in commercial property taxes, which include taxes on office buildings and similar properties. In 2019, the effective tax rate on a commercial property worth $1 million averaged 1.921 percent across the largest cities in each state. The highest rates were in Detroit, Providence (RI), Chicago, and Bridgeport (CT), all having effective tax rates that were more than two-thirds higher than the average for these 53 cities. Des Moines (IA) and Aurora (IL) also had effective tax rates higher than 3 percent. On the other hand, rates were less than half of the average in Charlotte (NC), Seattle, and Cheyenne (WY).

**Highest and Lowest Effective Property Tax Rates on $1-Million Commercial Property**

| **Highest Property Tax Rates** | | | | **Lowest Property Tax Rates** | | | |
|---|---|---|---|---|---|---|---|
| 1 | Detroit | 3.77% | *Why:* Low property values | 49 | Honolulu (HI) | 1.02% | *Why:* High property values, Low local gov't spending |
| 2 | Providence (RI) | 3.61% | *Why:* High property tax reliance | 50 | Virginia Beach (VA) | 0.99% | *Why:* Low local gov't spending, High property values |
| 3 | Chicago (IL) | 3.51% | *Why:* High local gov't spending, Classification shifts tax to business | 51 | Charlotte (NC) | 0.95% | *Why:* Low property tax reliance |
| 4 | Bridgeport (CT) | 3.30% | *Why:* High property tax reliance | 52 | Seattle (WA) | 0.77% | *Why:* High property values, Low property tax reliance |
| 5 | Des Moines (IA) | 3.02% | *Why:* Low property values, High property tax reliance | 53 | Cheyenne (WY) | 0.69% | *Why:* Low property tax reliance |

Note: Analysis includes an additional $200k in fixtures (office equipment, etc.)
Data for all cities: Figure 3 (page 24), Appendix Table 1b (page 55), and Appendix Table 3a (page 76).

Wilmington (DE) had the largest decline at 25 percent, dropping them from 35th to 47th. Rates also fell more than 10 percent in Seattle, Nashville, and Columbus. Nashville dropped five places from 43rd to 48th and Columbus dropped four places from 21st to 25th.

Double digit increases were found in New York City (15.6%), Indianapolis (12.9%), Fargo (11.1%), and Charleston (WV) at 10.5 percent. The next greatest increases (between 5% and 10%) belong to Cheyenne (WY), Minneapolis, Louisville, and Burlington (VT). Notable increases in rankings include Indianapolis (13th to 7th), New York City (47th to 38th), Fargo (50th to 45th), and Louisville (41st to 37th).

**Preferential Treatment for Homeowners**

Many cities have preferences built into their property tax systems that result in lower effective tax rates for certain classes of property, with these features usually designed to benefit homeowners. The "classification ratio" describes these preferences by comparing the effective tax rate on land and buildings for two types of property. For example, if a city has a 3.0% effective tax rate on commercial properties and a 1.5% effective tax rate on homestead properties, then the commercial-homestead classification ratio is 2.0 (3.0% divided by 1.5%).

An analysis of the largest cities in each state shows an average commercial-homestead classification ratio of 1.71, meaning that on average commercial properties experience an effective tax rate that is 71% higher than homesteads. Over a quarter of the cities (16 of 53) have classification ratios above 2.0, meaning that commercial properties face an effective tax rate that is at least double that for homesteads.

**Preferential Treatment of Homeowners:** Ratio of Effective Tax Rate on Commercial and Apartment Properties to the Rate on Homestead Properties (2019)

| Commercial vs. Homestead Ratio | | | Apartment vs. Homestead Ratio | | |
|---|---|---|---|---|---|
| 1 | Boston (MA) | 4.37 | 1 | Charleston (SC) | 4.07 |
| 2 | Charleston (SC) | 4.07 | 2 | New York (NY) | 2.48 |
| 3 | Denver (CO) | 3.99 | 3 | Indianapolis (IN) | 2.47 |
| 4 | Honolulu (HI) | 3.97 | 4 | Jacksonville (FL) | 2.36 |
| 5 | New York (NY) | 3.14 | 5 | Birmingham (AL) | 2.19 |

Note: Commercial-homestead ratio compares rate on $1 million commercial building to median valued home.
Apartment-homestead ratio compares rate on $600k apartment building to median valued home.
Ratios compare taxes on real property and exclude personal property.
Data for all cities: Figures 6a and 6b (Pages 38-39), Appendix Table 6a (Pg. 102), and Appendix Table 6b (Pg. 104).

The average apartment-homestead classification ratio is significantly lower (1.34), with apartments, resulting in an effective tax rate that is 34% higher than homesteads on average. There are six cities where apartments face an effective tax rate that is more than double that for homesteads, with Charleston (SC) being an outlier with a tax rate on apartments that is over four times higher than the rate on a median valued home. It is important to note that while renters do not pay property tax bills directly, they do pay property taxes indirectly since landlords are able to pass through some or all of their property taxes in the form of higher rents.

There are four types of statutory preferences built into property tax systems that can lead to lower effective tax rates on homesteads than other property types: the assessment ratio, the nominal tax rate, exemptions and credits, and differences in assessment limits. In total, 40 of the 53 cities have statutory preferences that favor homesteads over commercial properties. 21 of these 40 cities benefit homeowners using at least two of these four statutory preferences. In 11 cities preferential treatment for homeowners is delivered through exemptions or credits alone,

while in 8 cities preferences are delivered exclusively through differences in assessment ratios or nominal tax rates. Similarly, 36 cities have statutory preferences favoring homesteads relative to apartments, but only 12 offer more than one preference. Seven cities have preferential assessment ratios and/or nominal tax rates only, while 17 cities offer homestead exemptions or credits alone.

**Property Tax Assessment Limits**

Since the late 1970s, an increasing number of states have adopted property tax limits, including constraints on tax rates, tax levies, and assessed values. This report accounts for the impact of limits on tax rates and levies implicitly, because of how these laws impact cities' tax rates, but it is necessary to use an explicit modeling strategy to account for assessment limits.

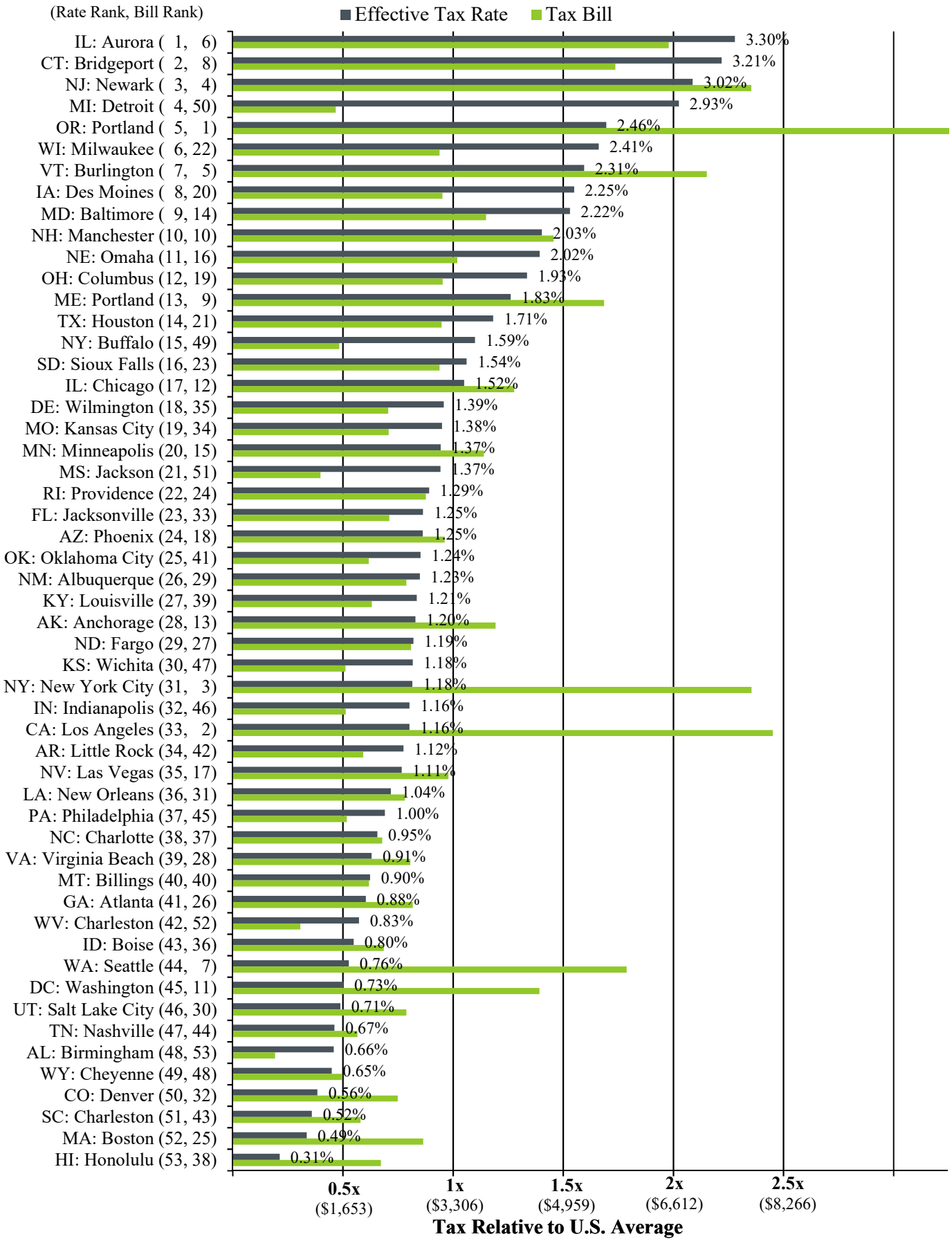
Assessment limits typically restrict growth in the assessed value for individual parcels and then reset the taxable value of properties when they are sold. Therefore, the level of tax savings provided from assessment limits largely depends on two factors: how long a homeowner has owned her home and appreciation of the home's *market value* relative to the allowable growth of its *assessed value*. As a result, assessment limits can lead to major differences in property tax bills between owners of nearly identical homes based on how long they have owned their home.

This report estimates the impact of assessment limits by calculating the difference in taxes between newly purchased homes and homes that have been owned for the average duration in each city, for median valued homes. For example, in Los Angeles, the average home has been owned for 14 years and the median home value is $682,400. Because of the state's assessment limit, someone who has owned their home for 14 years would pay 45 percent less in property taxes than the owner of a newly purchased home, even though both homes are worth $682,400. The largest discrepancy is in New York City, which has an assessment limit that has capped growth in assessed values for residential properties since 1981, and unlike most assessment limits does not reset when the property is sold. As a result, the owner of a newly built, median valued home would face an effective tax rate 57 percent higher than the owner of a home built prior to 1981, even though the two homes have identical values ($645,100). Assessment limits reduce taxes by 30% or more in New York City, the eight California cities studied, the two Florida cities studied, Detroit, and Portland (OR). Of the 29 cities in this report that are affected by parcel-specific assessment limits, new homeowners face higher property tax bills than existing homeowners in 22 cities. In 2019, no home value was sheltered in Chicago and six Texas cities: Arlington, Austin, Dallas, El Paso, Houston, and San Antonio.

**Conclusion**

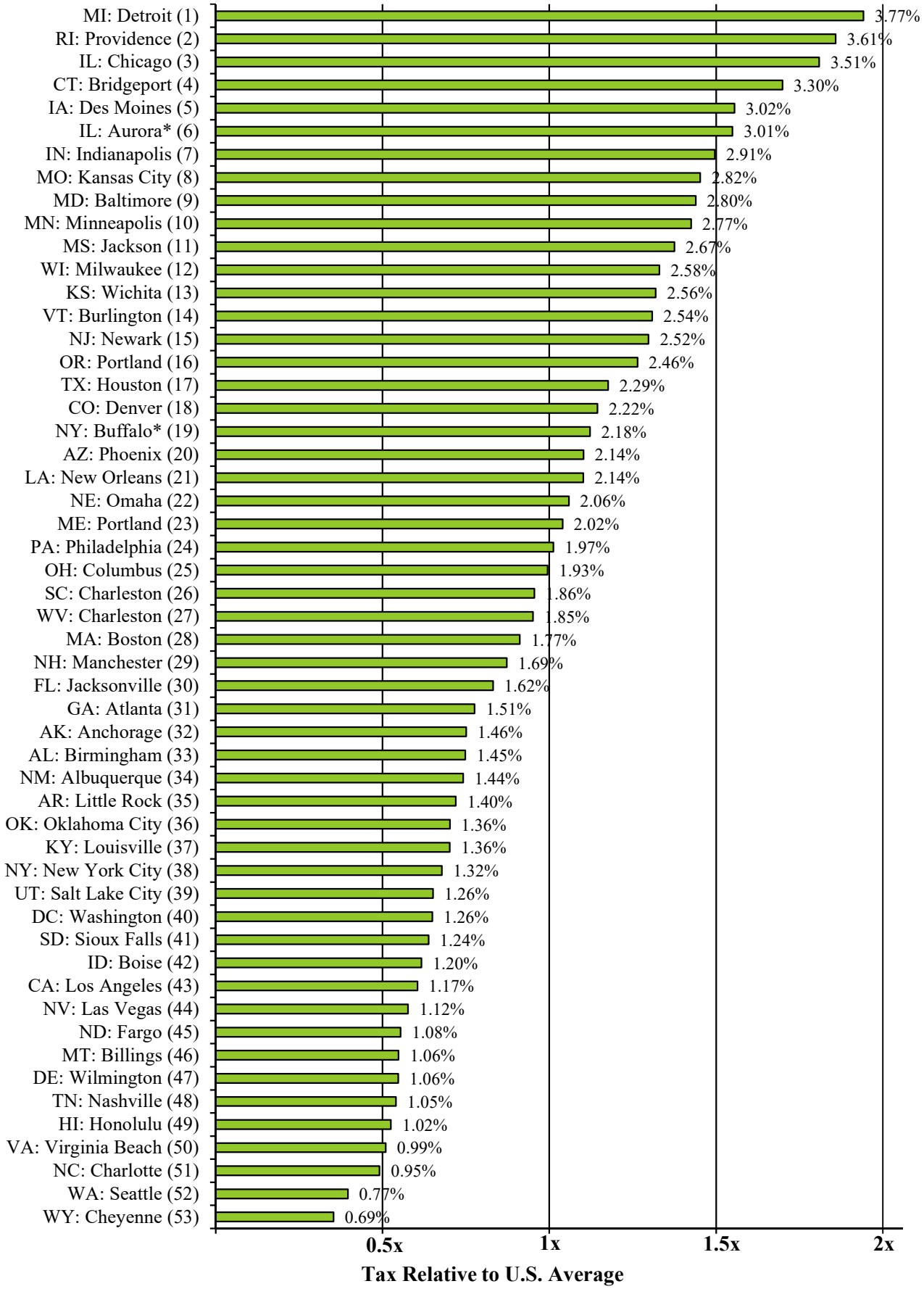
Property taxes range widely across cities in the United States. This report not only shows which cities have high or low effective property tax rates, but also explains why. Cities will tend to have higher property tax rates if they have high property tax reliance, low property values, or high local government expenditures. In addition, some cities use property tax classification, which can result in considerably higher tax rates on business and apartment properties than on homesteads. By calculating the effective property tax rate, this report provides the most meaningful data available to compare cities' property tax burdens. These data have important implications for cities because the property tax is a key part of the package of taxes and public services that affects cities' competitiveness and quality of life.

## Property Taxes on Median Valued Home for Largest City in Each State (2019)

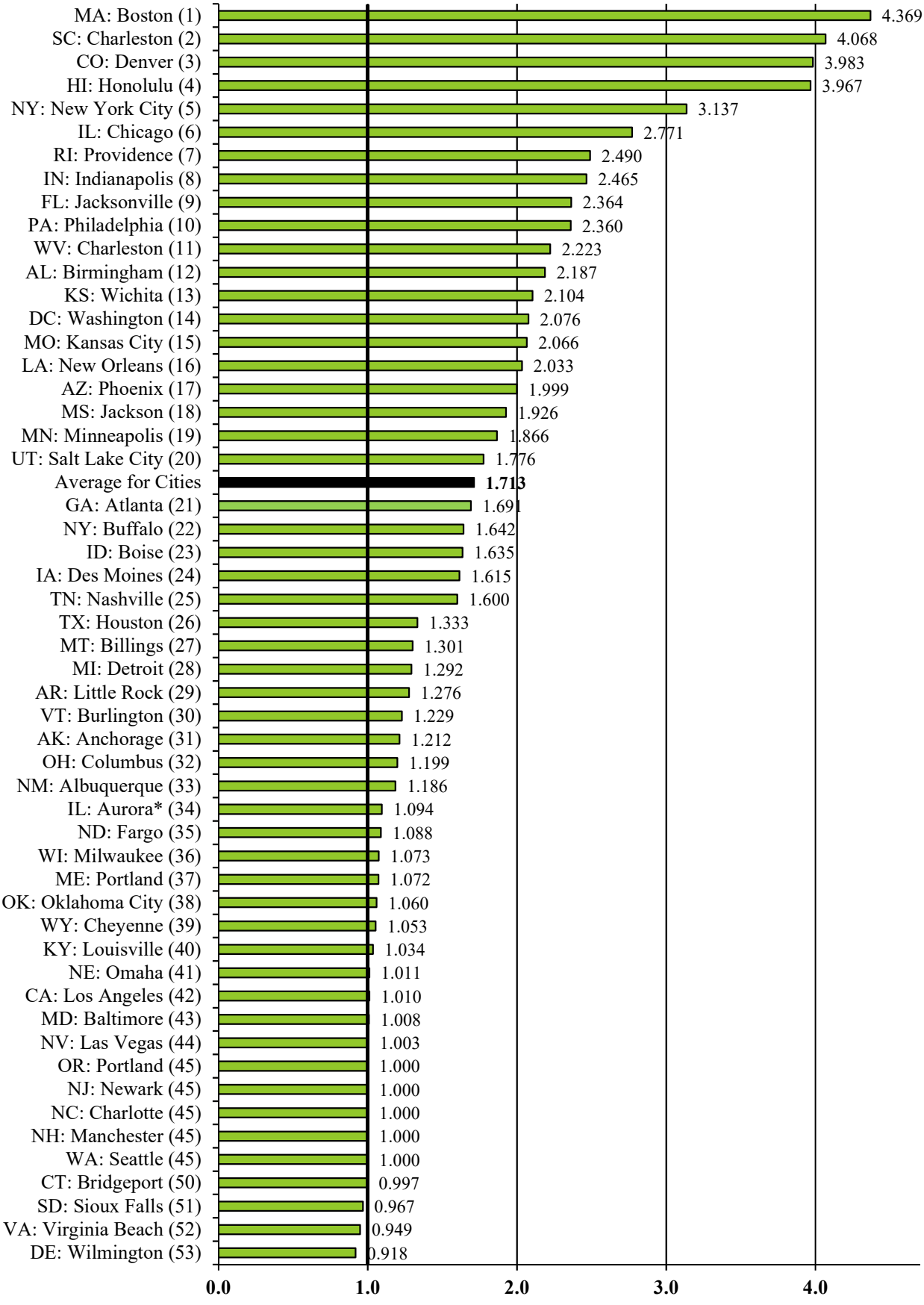


**Commercial Property Taxes for Largest City in Each State (2019)**

Effective Tax Rate for $1-Million Valued Property (plus $200k in Fixtures)



## Commercial-Homestead Classification Ratio for Largest City in Each State (2019)




Note: Commercial-homestead ratio compares rate on $1 million commercial building to median valued home.