

## 50-State Property Tax Comparison Study: For Taxes Paid in 2021

### 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 operate in an environment where the state uses 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 74 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 (\$3,201 vs. \$2,221 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 \$3,424. To raise that amount from a median valued home, the effective tax rate would need to be 20 times higher in Detroit than in San Francisco – 5.49 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 1.33 percent in 2020 for this group of 53 cities.<sup>1</sup> At that rate, a home worth \$200,000 would owe \$2,660 in property taxes (1.33% x \$200,000). On the high end, there are three cities with effective tax rates that are at least 2 times higher than the average – Aurora (IL), Newark, and Detroit. Conversely, there are eight cities where tax rates are half of the study average or less – Honolulu, Charleston (SC), Boston, Denver, Charleston (WV), Salt Lake City, Boise, and Cheyenne (WY).

### Highest and Lowest Effective Property Tax Rates on a Median Valued Home (2021)

Highest Property Tax Rates				Lowest Property Tax Rates			
1	Detroit (MI)	3.27%	<i>Why:</i> Low property values	49	Charleston (WV)	0.59%	<i>Why:</i> Low property tax reliance, Classification shifts tax to business
2	Newark (NJ)	3.23%	<i>Why:</i> High property tax reliance	50	Denver (CO)	0.53%	<i>Why:</i> Low property tax reliance, classification, high home values
3	Aurora (IL)	3.11%	<i>Why:</i> High property tax reliance	51	Boston (MA)	0.51%	<i>Why:</i> High home values, Classification shifts tax to business
4	Portland (OR)	2.62%	<i>Why:</i> Assessment limit shifts tax to newly built homes	52	Charleston (SC)	0.49%	<i>Why:</i> Classification shifts tax to business, High home values
5	Milwaukee (WI)	2.48%	<i>Why:</i> Low property values	53	Honolulu (HI)	0.30%	<i>Why:</i> High home values, low local gov't spending, classification

Note: Data for all cities: Figure 2 (page 19), Appendix Table 1a (page 53), and Appendix Table 2a (page 61).

The average tax rate for these 53 cities fell 3.6 percent between 2020 and 2021, from 1.379 percent to 1.330 percent. This drop was on the heels of a 4.6 percent decrease over the last two years. From 2020 to 2021, 33 cities had decreases in their effective tax rate for a median valued home, while 20 cities had increases. The largest increase was in Detroit at 15 percent. Another four cities had increases exceeding 5 percent: Louisville, Anchorage, Portland (OR), and Boston.

<sup>1</sup> 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.

The largest decreases in effective tax rates were in Manchester (NH) and Burlington (VT), where rates fell more than 30% from 2020 to 2021. In both cases, local mill rates were reduced by nearly 40 percent. The next largest decreases were Portland (ME) and Bridgeport (CT) at more than 20 percent, followed by Jackson (MS) and Boise (ID) at more than 10 percent.

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, Los Angeles and Wichita (KS) have similar effective tax rates of 1.16 and 1.20 percent on median valued homes, but because the median valued home is worth so much more in Los Angeles (\$728k vs. \$149k), the tax bill is far higher in Los Angeles (4<sup>th</sup> highest) than in Wichita (48<sup>th</sup> highest).

Effective tax rates rise with home values in about half of the cities (24 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, Washington (DC), and New Orleans.

### Commercial Property Taxes

There are also significant variations across cities in commercial property taxes, which include taxes on office buildings and similar properties. In 2021, the effective tax rate on a commercial property worth \$1 million averaged 1.863 percent across the largest cities in each state. The highest rates were in Detroit and Chicago, where effective tax rates remain more than twice the average for these 53 cities. On the other hand, rates were less than half of the average in Cheyenne (WY), Seattle, Charlotte, and Birmingham (AL).

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

Highest Property Tax Rates				Lowest Property Tax Rates			
1	Detroit (MI)	4.21%	<i>Why:</i> Low property values	49	Boise (ID)	0.97%	<i>Why:</i> Low local gov't spending, High property values
2	Chicago (IL)	3.78%	<i>Why:</i> High local gov't spending, Classification shifts tax to business	50	Birmingham (AL)	0.88%	<i>Why:</i> Low property tax reliance
3	Providence (RI)	3.53%	<i>Why:</i> High property tax reliance	51	Charlotte (NC)	0.87%	<i>Why:</i> Low property tax reliance
4	Des Moines (IA)	2.91%	<i>Why:</i> Low property values, High property tax reliance	52	Seattle (WA)	0.82%	<i>Why:</i> High property values, Low property tax reliance
5	Kansas City (MO)	2.84%	<i>Why:</i> Low property values, High property tax reliance	53	Cheyenne (WY)	0.69%	<i>Why:</i> Low property tax reliance

Note: Analysis includes an additional \$200k in fixtures (office equipment, etc.)

Data for all cities: Figure 3 (page 25), Appendix Table 1b (page 56), and Appendix Table 3a (page 77).

The average commercial tax rate for the 53 cities fell 4.9 percent between 2020 and 2021, as 36 cities saw declines versus 16 cities with increases. Only four cities had increases over 5 percent: Honolulu, Louisville, Portland (OR), and Anchorage.

New England led the way in major decreases – just as with homesteads – with Manchester (NH) at 34%; Portland (ME) at 31%; Burlington (VT) at 29%; and Bridgeport (CT) at 28%. Other

double-digit decreases were found in Birmingham (AL), Wilmington (DE), Des Moines, and Nashville.

**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 1.75, meaning that on average commercial properties experience an effective tax rate that is 75 percent higher than homesteads. Nearly a third of the cities (17 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, led by Honolulu at 4.6.

**Preferential Treatment of Homeowners: Ratio of Effective Tax Rate on Commercial and Apartment Properties to the Rate on Homestead Properties (2021)**

Commercial vs. Homestead Ratio			Apartment vs. Homestead Ratio		
1	Honolulu (HI)	4.63	1	Charleston (SC)	3.75
2	Boston (MA)	4.40	2	New York (NY)	3.59
3	Denver (CO)	3.98	3	Jacksonville (FL)	2.52
4	Charleston (SC)	3.75	4	Indianapolis (IN)	2.43
5	Charleston (WV)	3.16	5	Jackson (MS)	2.21

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 39-40), Appendix Table 6a (Pg. 103), and Appendix Table 6b (Pg. 105).

The average apartment-homestead classification ratio is significantly lower (1.36), with apartments facing an effective tax rate that is 36% higher than homesteads on average. There are seven cities where apartments face an effective tax rate that is more than double that for homesteads, with Charleston (SC) as the biggest outlier where the rate for apartments is 3.75 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. In 20 of these 40 cities, homeowners benefit from at least two of these four statutory preferences. In 11 cities preferential treatment for homeowners is delivered through exemptions or credits alone, while in 9 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 11 offer more than one preference. Eight 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.

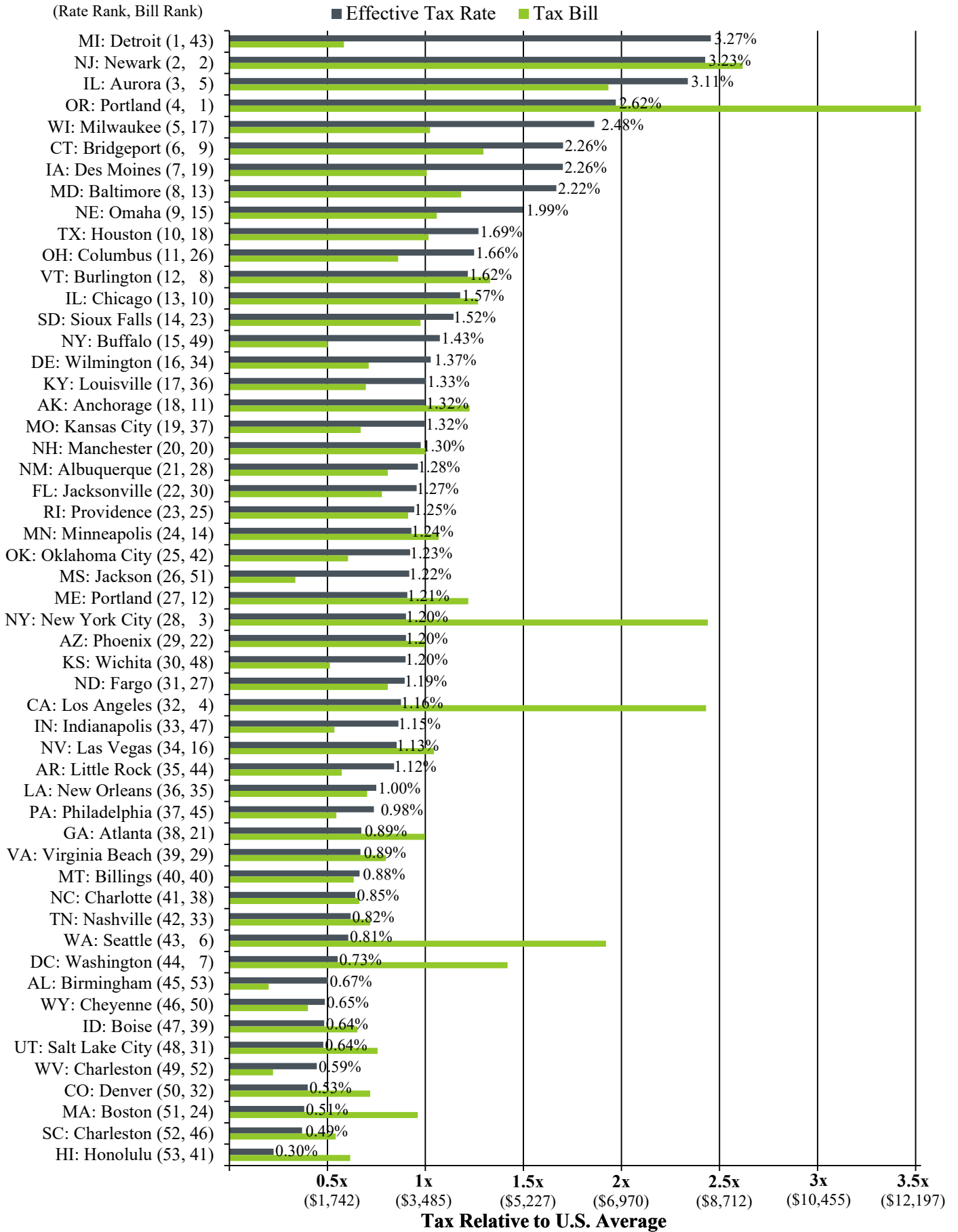
Assessment limits typically restrict growth in the assessed value for individual parcels and then reset the taxable value of properties when they are sold. Therefore, the level of tax savings provided from assessment limits largely depends on two factors: how long a homeowner has owned her home and appreciation 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 17 years and the median home value is \$727,737. Because of the state's assessment limit, someone who has owned their home for 17 years would pay 50 percent less in property taxes than the owner of a newly purchased home, even though both homes are worth \$727,737. 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 54.5 percent higher than the owner of a home built prior to 1981, even though the two homes have identical values (\$709,745). Assessment limits reduce taxes by 30% or more in New York City, eight of nine California cities studied, the two Florida cities studied, Detroit, Phoenix, and Portland (OR). Of the 30 cities in this report that are affected by parcel-specific assessment limits, new homeowners face higher property tax bills than existing homeowners in 24 cities. No 2021 home value was sheltered in six of seven Texas cities studied, with Austin as the lone exception.

## **Conclusion**

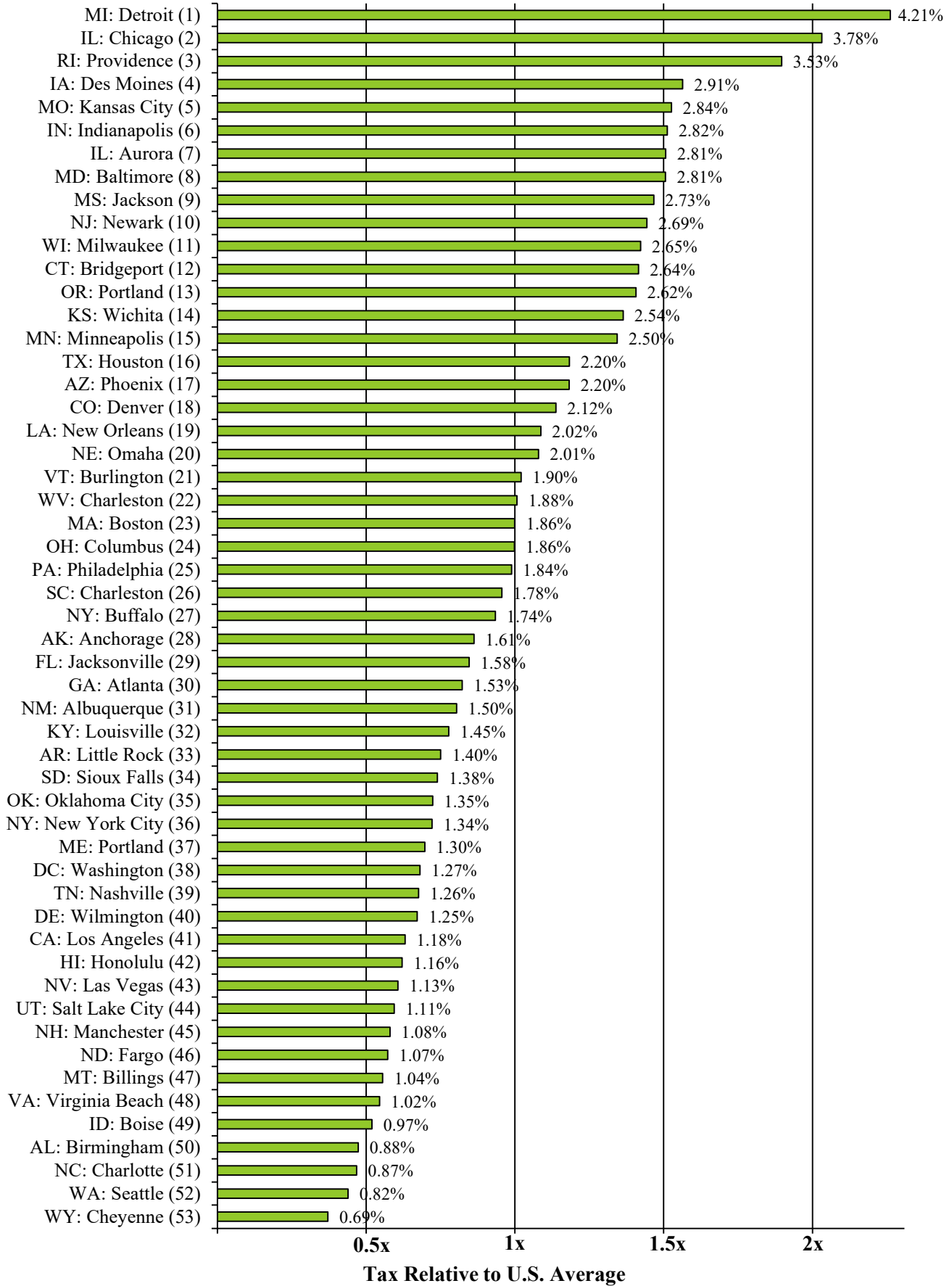
Property taxes range widely across cities in the United States. This report not only shows which cities have high or low effective property tax rates, but also explains why. Cities will tend to have higher property tax rates if they have high property tax reliance, low property values, or high local 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 (2021)

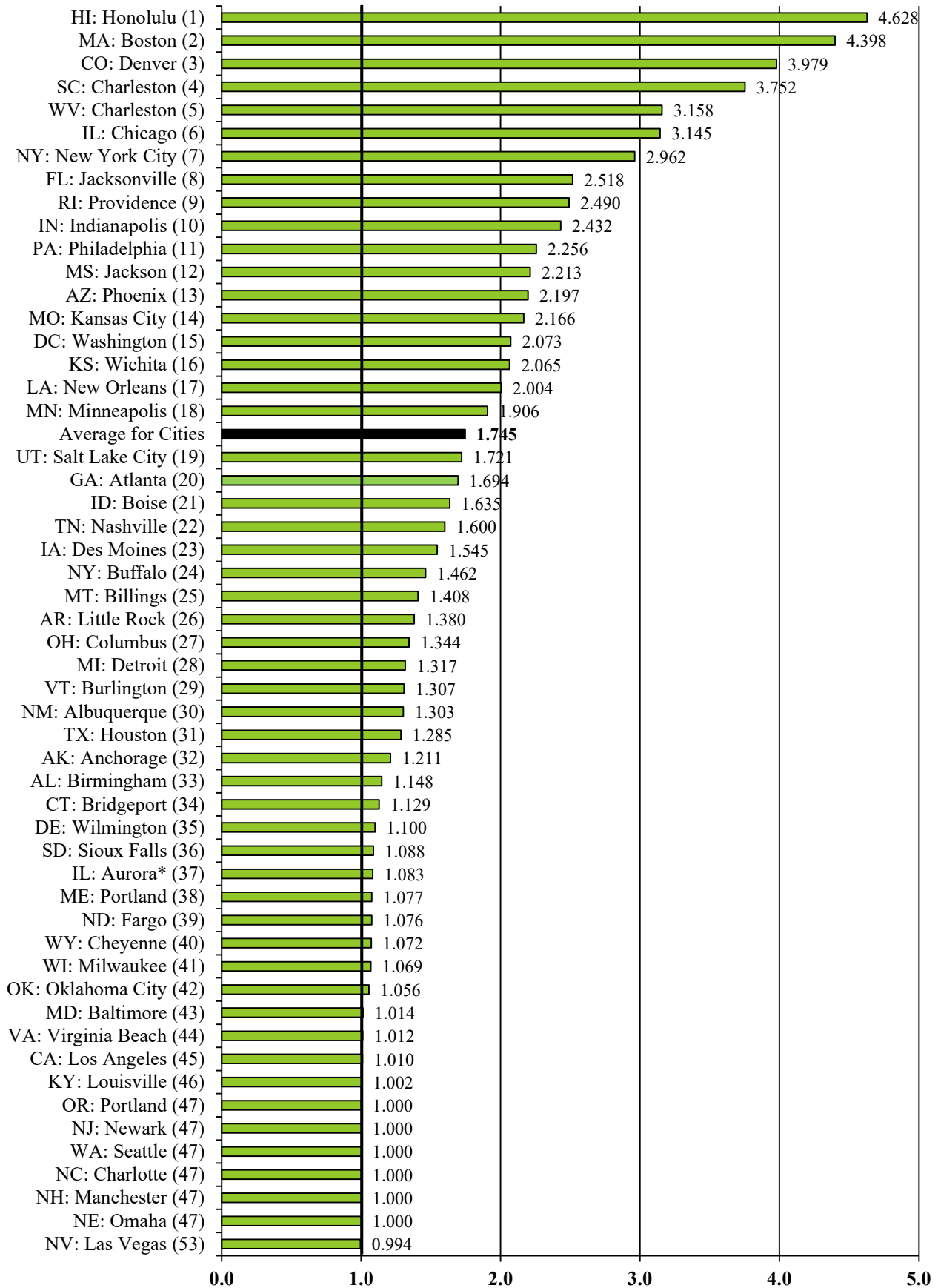


## Commercial Property Taxes for Largest City in Each State (2021)

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



## Commercial-Homestead Classification Ratio for Largest City in Each State (2021)



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