



FINANCE

Despite Slowing Revenues, Property Tax Cuts Are All the Rage

Most red states are looking to reduce property tax burdens, which have increased along with home values. Finding ways of replacing lost revenues for locals remains a challenge.

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Texas Gov. Greg Abbott has called on the Legislature to cut property taxes in the state by \$10 billion.
BRONTE WITTPENN/AMERICAN-STATESMAN/TNS

In Brief:

- Home values have shot up by 27 percent, after inflation, since 2020. As a result, property tax bills have climbed much higher.
- Nearly every Republican governor is interested in reducing property tax rates. Some states are considering multi-billion dollar cuts.
- Although state lawmakers want to cut property taxes, they're mainly imposed at the local level. Backfilling lost revenues to counties and schools makes cuts an expensive proposition.

Two years ago, Texas cut property taxes by \$18 billion. Despite that massive cut, Republican Gov. Greg Abbott has called on the Legislature to cut property taxes by an additional \$10 billion this year. “Texans are facing an affordability crisis,” **Abbott said recently in a video** declaring property tax cuts an “emergency” item. “And one reason for that crisis is because of skyrocketing property taxes.”

Across the country, there's an enormous appetite to cut property taxes. At least, there is in red states. There is hardly a Republican governor in the country who hasn't called for tax relief in his or her State of the State address. “As you all know, my top priority this session is reducing the burden of rising property taxes on Montana homeowners and small businesses,” GOP Gov. Greg Gianforte said last week.

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There's no mystery as to what's driving this desire. Home prices have risen far faster than inflation over the past few years — up **27 percent nationwide**, in fact, in after-inflation dollars since 2020. In some pandemic-era boomtowns — your Boises and your Bozemans — average home values have doubled.

That should be great news for homeowners, but it turns into pain when their properties are reassessed and their tax bills go up. A county or school district can

adjust tax bills to reflect rising values — usually, homes are taxed per \$100,000 of value — but they don't always provide taxpayers with relief when valuations are going up. "The reality is that inflation hit local governments hard, too, and their budgets went up," says Adam Smith, the Republican chair of the Kansas House Committee on Taxation. "So for homeowners, their ultimate tax bill was impacted quite significantly."

Although Smith is interested in cutting property taxes this session, he's limited in what he can do, with little of the overall property tax bill set at the state level in Kansas. Across the country, while legislators may like to cut property taxes, the reality is they're primarily a tool of local government.

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Whenever state lawmakers talk about cutting property taxes, city, county and school district officials come to the capitol to warn about potential impacts on their budgets and services.

Property tax cuts are a top priority for Indiana GOP Gov. Mike Braun, who has issued a relief package that would reduce local government revenue by \$1.2 billion next year. Testifying before the state Senate last week, Carmel, Ind., Mayor Sue Finkam said that property tax bills in her city have increased by 7 percent since 2020, despite a whopping \$4 billion increase in assessed value. In other words, the city has been able to adjust its property tax rates to reflect rising values and prevent homeowners from bearing the full brunt of increased values.

But Finkam warned that the proposed legislation would erase \$26 million from Carmel's general fund and revert the city's property tax revenues back to 2019 levels. "While we could dramatically cut services, or drastically raise tax rates for the non-homestead taxpayers," she said, "either of these actions would undermine decades of careful community building."

Unpopular Tax

Property taxes are never popular. In most states, people pay them in big lump payments, either attached to their mortgages or writing out sizable checks once or twice or four times a year. The numbers involved look way bigger than the sales tax that gets added to the bottom of your receipts.

That said, property taxes are a key source of revenue for local governments. They tend to remain stable over time, fluctuating less than sales or income taxes. Even though they do go up when values increase, most jurisdictions recalibrate their property tax rates, known as mill levies, so that they can be adjusted downward when values go up throughout a community.

In North Dakota, voters **rejected a ballot measure** in November that would have eliminated property taxes based on assessed value. It would have caused huge disruptions, with the state having to make whole local governments for all (or some of) that lost revenue.

Shortly after taking office in January, Republican Gov. Kelly Armstrong issued a **“path to zero”** plan that would eliminate property taxes over time. The governor wants to provide \$1,550 worth of relief to homeowners right away and eventually replace property taxes largely with revenue from the state’s oil taxes, which fuels the state’s Legacy Fund.

Getting to zero would take a long time, says Craig Headland, who chairs the Finance and Taxation Committee in the North Dakota House. “I think it would take until 2045, or maybe even later, before the Legacy Fund would generate enough earnings to completely cover the cost of property taxes,” he says. “So that’s a very long-term goal.”

Nonetheless, he favors offering property tax relief this year. Last year, North Dakota offered a \$500 credit to offset property taxes on a person’s primary residence. But many people saw so much growth in the taxable value of their homes that “they never saw a penny of that \$500,” Headland says.

“They still ended up paying more than they had the previous year,” he says. “And it drove a lot of legislators crazy.”

Finding the Right Formula

The fact that states generally don't have direct control over property taxes makes the job of offering relief more complicated. This is reflected in the variety of relief ideas that are being considered in red-state legislatures this year.

Some want to cap limits on annual levy increases. Some would force local governments to get increases approved by voters. Some would increase homestead exemptions, which makes a certain share of a home's value non-taxable.

When states seek to hold localities harmless by backfilling any lost revenue, that quickly becomes expensive for the state and not always sustainable over the long haul.

Smith, the Kansas tax chair, was a county commissioner before winning election to the House. "I've got a little bit of sympathy for the local governments and the services that they have to provide," he says. "A lot of your small, rural counties — which is about 90 percent of Kansas — don't have enough sales tax base to really make much of an impact, so local governments are really dependent on property taxes for those revenues."

Nevertheless, when property taxes are going up, many lawmakers will want to cut the weighty bills their constituents are complaining about. Last year, Wyoming GOP Gov. Mark Gordon signed a series of property tax bills, including relief targeted at seniors. But he **vetoed a bill** that would have cut property taxes generally by 25 percent, saying it represented "a socialistic type of wealth transfer, mostly from the energy sector, to Wyoming homeowners."

Wyoming lawmakers appear undeterred. Last week, the Wyoming Senate passed an enormous property tax relief bill. Rather than the 25 percent that Gordon objected to, the **Senate passed a bill** last week that would cut property taxes for most residences by 50 percent for two years, with no backfill from the state for lost local revenues.



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