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Property Tax Limitation Regimes: A Primer

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Key Findings

- Property tax limitations have been adopted in forty-six states and the District of Columbia, though their designs and restrictiveness differ widely.
- There are three broad categories of property tax limitations: assessment limits, levy limits, and rate limits.
- Assessment limits seek to limit how much any individual homeowner's taxes can rise due to increases in assessed value, but can introduce highly unequal tax burdens across similarly-situated properties.
- Rate limits cap the overall rates that can be set by local policymakers, but do not shield properties from increases due to rising values or from other policies designed to increase collections.
- Levy limits constrain overall revenue growth, though allow both rates and individual homeowners' tax liability to change within this aggregate constraint.
- Some tax limitations can serve to discourage nonneutral split roll taxation, a worthwhile goal, though uniformity clauses represent a better approach.
- All property tax limitations have the potential not only to constrain the growth of government, but also to drive a shift to other local taxes or to greater reliance on state government.
- Property taxes are one of the more economically neutral sources of governmental revenue, and local control is often prized, suggesting that considerable care should be taken in designing any property tax limitation regime.

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Introduction

Economists tend to love property taxes; the public is likely to view this as more proof, as if it were needed, of John Maynard Keynes' observation that economics is extremely useful—as a form of employment for economists. What voters love, almost without fail, are property tax limitations.

Forty-six states and the District of Columbia have adopted some form of property tax limitation regime, ranging from provisions which strictly control property tax revenues to regimes so lax as to be functionally irrelevant. Some view property tax limitations as a sensible constraint on the growth of government, or as a fail-safe to avoid pricing people out of their own homes. Others see the limitations as undemocratic, inefficient, and insufficiently flexible to address the needs of local government.

This paper outlines the basic typology of property tax limitations, explores their myriad variations, considers their implications, and suggests a few best practices and alternatives.

The Tax Revolt and the Rise of Property Tax Limitations

Tax revolts have a storied place in history: opposition to oppressive taxation, real or imagined, has inspired passionate reactions from everyone from Lady Godiva to the Whiskey Rebels. It undergirded the English Civil War and the American Revolution; it helped shape the French Revolution; it got Karl Marx arrested; and in 1970s California it fired up an activist named Howard Jarvis, who shocked the political establishment with the success of Proposition 13, generally regarded as the first battleground of the modern property tax revolt.[1]

With the benefit of hindsight, Proposition 13's success appears obvious. California property values were increasing on the order of 25 percent a year in the decade before its ratification, and after the courts struck down local financing of public education—among the largest, and certainly the most popular, expenditures from property tax revenues—soaring property tax bills became increasingly hard to justify.[2] Local government officials could have responded to skyrocketing assessed values and reduced revenue needs by cutting rates, but instead, most jurisdictions felt content to reap the windfall.

As fate would have it, they reaped the whirlwind.

Proposition 13, among other provisions, rolled back assessment values by two years, limited increases in assessed values to 2 percent a year until a property is sold, imposed a 1 percent rate cap, and required local rate increases to be approved by the electorate, measures which reduced collections by 57 percent.[3] The revolt that began in California spread quickly, with fifty-eight property tax limitation measures appearing on ballots between 1979 and 1984.[4]

1 See generally, William H. Oakland, "Proposition 13—Genesis and Consequences," *National Tax Journal* 32:2 (June, 1979): 387-409.

2 Bing Yuan, Joseph Cordes, David Brunori, and Michael Bell, "Tax Expenditure Limitations and Their Effects on Local Public Finances," George Washington University (2007): 7, http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.545.1521&rep=rep1&type=pdf.

3 Id.

4 Id., 8.

It was not the first major round of property tax limitations—the Great Depression saw an earlier national trend, after property values fell 92 percent by 1932 but assessments failed to track the decline[5]—nor would it be the last. The mid-2000s ushered in another wave of limitation measures, perhaps explained by the fact that local government property tax revenues grew 50 percent faster from 2001 to 2005 than they did from 1996 to 2000.[6] Nationwide, local property tax collections grew 36 percent in the first half of the decade while personal income grew 36 percent and median household income less than 14 percent. In Indiana, to cite one example, some taxpayers saw their property taxes rise by more than 75 percent in a single year.[7] Whenever elected officials have, through inaction, allowed property tax burdens to rise too precipitously, voters have turned to constraining mechanisms.

Political scientists have long debated the degree to which government officials respond to majority preferences. One side contends that government policies are largely constrained by the preferences of the median voter, without whose support elected officials cannot remain in power. The other holds that, for reasons ranging from the power of incumbency to low-information voting to agency problems in government, the fact that most voters do not, say, favor a property tax increase provides little assurance that one will not be imposed on them.[8] It is the latter theory that is at the heart of the property tax limitation regime: the idea that, if elected officials will not listen to the voters, then the voters must take matters into their own hands.

It is undeniably true that, when voters are asked whether they wish to override the limitations they adopted and approve a property tax increase, they frequently do so. This might be regarded as a great irony, or perhaps as a negation of the very concept of property tax limits. Yet even when voters routinely approve overrides of property tax limitations, they may prefer a system which vests authority for such decisions in the people, and local government officials may be more constrained in their fiscal aims if they operate under the need to secure voter approval. Even a system under which most requests are granted may be more austere than one under which no such approval is required.

Many policymakers recoil at property tax limitations, seeing them not only as an unnecessary constraint on local governments, but also an inefficient and inequitable system with a panoply of unintended consequences. Several of these concerns have merit, and are considered in this paper. But if policymakers wish to reform existing limitation regimes, or to seek alternatives, they must first recognize the circumstances under which they have been adopted and to acknowledge that, irrespective of whether the limitations are *desirable* as a matter of public policy, their appeal is eminently *understandable*.

5 Id., 5.

6 Byron Lutz, "The Connection Between House Price Appreciation and Property Tax Revenues," Board of Governors of the Federal Reserve System, *Finance and Economics Discussion Series* 48 (Sept. 12, 2008): 3, https://www.researchgate.net/publication/23529365.

7 Terri Sexton, "The Increasing Importance of Assessment Limitations as a Means of Limiting Property Taxes on Homeowners," California State University-Sacramento (September 2007): 1, https://www.researchgate.net/publication/228389262.

8 See generally, Leah Brooks, Yosh Halberstam, and Justin Phillips, "Spending Within Limits: Evidence from Municipal Fiscal Restraints," Board of Governors of the Federal Reserve System, *Finance and Economics Discussion Series* 52 (April 2012), https://www.federalreserve.gov/pubs/feds/2012/201252/201252pap.pdf.

A Basic Typology of Property Tax Limitations

Broadly speaking, property tax limitations can be broken out into three categories: assessment limits, rate limits, and levy limits. Both permissive and restrictive regimes exist across all three categories; the existence of some sort of property tax cap does not necessarily impose an effective restraint on property tax increases. Each type, moreover, has a somewhat different goal.

Assessment limits are meant to constrain incidental tax increases, driven not by conscious policy but by rising home values.[9] Even if assessments rose uniformly across a given tax district, increased tax burdens might arise if local government officials are inattentive, or consciously choose to collect more revenue through inaction on rate reductions. In practice, however, assessed values may rise heterogeneously, such that some property owners experience significant tax increases even if overall collections remain flat.

Assessment limits are often understood as a way to avoid inadvertently pricing someone out of their home when assessed values—and thus tax burdens—rise.[10] While the owner may be wealthier on paper due to the appreciation of their property value, their income flows and ability to pay higher taxes may not have risen proportionately. To critics, restrictions on assessment growth create sizable inequities over time and may adversely affect location decisions. To proponents, they help align the property tax with the taxpayer's ability to pay. In their most aggressive form, assessment limits "roll back" or freeze any assessment increase, though more frequently they are designed to limit the rate of growth. A typical assessment limitation might, by way of example, cap increases in assessed value at 4 percent per year.

Rate limits, conversely, function largely as a policy constraint. Whereas assessment limits are concerned with tax burdens which rise in the absence of any intervention, rate limits are designed to restrict the authority of local government officials to adopt a tax increase. They may cap the amount of a rate increase in a given year, establish a maximum allowable rate, require voter authorization, or even freeze rates outright.[11]

This class of limitations is best understood as a structural impediment to the growth of government. Revenues may rise if property values do, or if new property is placed into service, but under rate caps, local government officials are limited in their ability to engineer a conscious tax increase. Some view such limitations as a hallmark of good government, forcing governments to live within their means and seek voter approval to expand; others see such caps as artificial constraints which strip authority from the people's elected representatives and channel revenue generation efforts into other, often less efficient, taxes and fees. An archetypal rate limitation might cap rates at 2 percent, with a referendum process as an override.

9 John V. Winters, "Property Tax Limitations," Fiscal Research Center, Georgia State University, Report No. 179 (June 2008): 3, http://cslf.gsu.edu/files/2014/06/property_tax_limitations.pdf.

10 See, e.g., Marcus T. Allen and William H. Dare, "Changes in Property Tax Progressivity for Florida Homeowners After the 'Save Our Homes Amendment,'" Florida Atlantic University and Oklahoma State University (Nov. 19, 2007), http://alt.coxnewsweb.com/palmbeachpost/pdf/Progressivity_Allen_and_Dare.pdf, for a summary of the policy rationale for an assessment limit in Florida, and "Capping Assessed Valuation Growth: A Primer," Institute on Taxation and Economic Policy, Policy Brief 26 (2005), https://itep.org/wp-content/uploads/pb26.pdf, for a critical take.

11 John V. Winters, "Property Tax Limitations," 3.

Finally, levy (or revenue) limits are concerned with the actual amount of revenue raised, imposing rollbacks or reductions to ensure that collections do not increase in aggregate above a given amount. Individual owners may experience an increase or decrease in tax liability based on changes in rate or assessed value, but aggregate collections are constrained. Whereas assessment limitations only allow a tax increase (above a given threshold) based on intentional policy action—a rate increase—and rate limitations only permit them when driven by rising housing values, a levy limit permits greater variation but all within the context of a hard revenue limit.

Critics often object to the hard governmental constraints associated with levy limits, and may take issue with a property tax limitation that lacks a mechanism for easing the rising tax burdens associated with an appreciation in property value. Proponents, meanwhile, often applaud a levy limit's restraint of government growth, and may favor it over other property tax limitation regimes for avoiding many of the inequities and inefficiencies that can arise from assessment caps. A levy limit might, for instance, only allow property tax revenues to grow 0.5 percent above the rate of inflation.

TABLE 1.

Property Tax Limitation Regimes by State

State	Assessment	Rate	Levy
Alabama		✓	✓
Alaska		✓	✓
Arizona	✓	✓	✓
Arkansas	✓	✓	✓
California	✓	✓	
Colorado	✓	✓	✓
Connecticut	✓		
Delaware		✓	✓
Florida	✓	✓	
Georgia	✓	✓	
Hawaii			
Idaho		✓	✓
Illinois	✓	✓	✓
Indiana		✓	✓
Iowa	✓	✓	
Kansas			✓
Kentucky		✓	
Louisiana		✓	✓
Maine			✓
Maryland	✓		
Massachusetts		✓	✓
Michigan	✓	✓	✓
Minnesota			✓
Mississippi			✓
Missouri		✓	✓
Montana	✓	✓	✓
Nebraska		✓	✓
Nevada		✓	✓
New Hampshire			
New Jersey			✓
New Mexico	✓	✓	✓
New York	✓		✓
North Carolina		✓	
North Dakota		✓	✓
Ohio		✓	✓
Oklahoma	✓	✓	
Oregon	✓	✓	
Pennsylvania		✓	✓
Rhode Island			✓
South Carolina	✓	✓	
South Dakota		✓	✓
Tennessee			
Texas	✓	✓	✓
Utah		✓	✓
Vermont			
Virginia			✓
Washington		✓	✓
West Virginia		✓	✓
Wisconsin			✓
Wyoming		✓	
District of Columbia	✓	✓	✓

Source: Lincoln Institute of Land Policy, "Significant Features of the Property Tax®"

Assessment Limits

For some, real estate is an investment; for far more, it is a way of covering one's basic need for housing (leasing being the primary alternative); and for the more hopeful, it may be both. Rising property values, then, are good news for property owners—at least in theory. As investments go, however, real property is relatively illiquid, and if it also serves as one's primary residence, selling the property to realize investment gains may not be a viable option.

A signal issue in property taxation, then, is the fact that taxes rise with the value of the property, but any increases in that value for residential property are unlikely to have been realized by the time taxes come due, and may never be realized. From the perspective of a property owner, any gains on paper are entirely phantom gains if they have dissipated by the time the property is sold; but in the interim, the owner may have made years of property tax payments based on a higher value.[12]

Even if property values plummet, as when a housing bubble "pops," moreover, new assessments may be several years off, resulting in high tax payments on properties stripped of a significant portion of their assessed value. In extreme cases, concerns can be raised about pricing property owners out of their homes with taxes that, while tracking (perhaps with some latency) assessed values, are not in line with owners' ability to pay without liquidating their position—which is to say, selling their home.

State Examples of Assessment Limits

Elected officials have responded to these concerns with a range of policy solutions, most notably with assessment limitation measures, which came into their own with California's famous—some would say infamous—Proposition 13 in 1978.[13] Unfortunately, these solutions create their own set of problems, locking people into their homes, taxing similarly situated homeowners at dramatically different rates, and introducing a raft of other inequities and inefficiencies into property taxation.

Assessment limits typically impose a constraint in the rate of growth of assessed value, stipulating that annual increases cannot exceed a given percentage (or, sometimes, a certain amount above inflation) unless the property is sold, transferred, or significantly altered. Improvements—such as new construction—are often but not always outside the scope of the assessment limit, and in some cases, even a change of title may not reset a property's assessed value. More typically, however, assessment limits involve an acquisition value rule, with the assessed value resetting upon the sale of the property.

In California, for instance, transfers of a principal residence to close family members are exempt from reassessment, and those aged 55 or older can transfer the assessed value of their principal residence to a replacement dwelling of equal or lesser value in the same county, or even in another county

12 Andrew T. Hayashi, "Property Taxes and Their Limits: Evidence from New York City," *Stanford Law & Policy Review* 25:33 (January 2014): 36, https://law.stanford.edu/publications/property-taxes-limits-evidence-new-york-city/.

13 Bethany P. Paquin "Chronicle of the 161-Year History of State-Imposed Property Tax limitations," Lincoln Institute of Land Policy Working Paper WP15BP1 (April 2015): 8, https://www.lincolninst.edu/sites/default/files/pubfiles/paquin-wp15bp1.pdf.

where permitted by the receiving county.[14] In New York City, assessment limits do not reset upon sale at all, meaning that older residences experience far lower tax burdens than similarly situated new construction.[15] Colorado caps residential property at no more than 45 percent of statewide assessed value.[16] Iowa, meanwhile, combines a statewide assessment limit with an "ag tie" which implements an assessment rollback if residential property values in aggregate rise faster than agricultural assessments, or vice versa.[17] These reflect only a few of the variations states and, in some cases, localities have adopted to keep assessment increases in check.

Assessment limits range from the highly restrictive, such as California's cap of 2 percent or the rate of inflation, whichever is less, to the broadly permissive, like Minnesota's 15 percent limit.[18] When caps are low enough to be effective, they can introduce a number of perverse consequences. Most obviously, they increase the cost of newly purchased homes and of new construction, both relative to existing housing stock and in absolute terms. Moving from one home to another generally involves surrendering preferential tax treatment built up over years of undervaluation, creating a "lock-in effect" where homeowners have a disincentive to relocate.

Due to assessment limits, an ever-increasing share of property tax revenue must be generated from newer properties, or those which have changed ownership more recently. This often (but not exclusively) penalizes younger and lower-income homeowners, even though property tax limitations are often designed to benefit those with limited resources.

Assessment limits may also injure these classes of homeowners or would-be homeowners in another, more subtle way. Over the course of their lives, people frequently upgrade to larger and more expensive homes as they gain additional financial security, in the process selling their old, more affordable homes. When the lock-in effect keeps such individuals in their more modest homes longer, this decreases the stock of starter homes and other more affordable housing on the market, to the detriment of those with fewer financial resources.[19]

One response to the lock-in effect is portability. In Florida, for instance, the difference between market value and the estimated assessed value under the state's Save Our Homes assessment limit can be carried over to another residence in the same county or to another county that elects to extend such a benefit. If the replacement home is of lesser value, the portability value is the differential divided by the former homestead value and multiplied by the new homestead value.[20] This reduces the disincentives for moving, but in the long run can make inequities even larger, and exacerbates the price differential between younger and older homeowners.

14 Mark Haveman and Terri A. Sexton, "Property Tax Assessment Limits: Lessons from Thirty Years of Experience," Policy Focus Report, Lincoln Institute of Land Policy (2008): 5, http://www.lincolninst.edu/sites/default/files/pubfiles/property-tax-assessment-limits-full_0.pdf.

15 "50-State Property Tax Comparison Study for Taxes Paid in 2016," Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence (June 2017): 4, http://www.lincolninst.edu/sites/default/files/pubfiles/50-state-property-tax-comparison-for-2016-full.pdf.

16 Terri Sexton, "The Increasing Importance of Assessment Limitations as a Means of Limiting Property Taxes on Homeowners," 8.

17 Jared Walczak, Scott Drenkard, Joseph Bishop-Henchman, and Nicole Kaeding, *Iowa Tax Reform Options: Building a Tax System for the 21st Century*, Tax Foundation (May 5, 2016): 100, https://taxfoundation.org/iowa-tax-reform-options-building-tax-system-21st-century.

18 Mark Haveman and Terri A. Sexton, "Property Tax Assessment Limits: Lessons from Thirty Years of Experience," 10.

19 Terri Sexton, "The Increasing Importance of Assessment Limitations as a Means of Limiting Property Taxes on Homeowners," 20.

20 Hai Guo and Howard A. Frank, "Portability, an Innovative Property Tax Relief Whose Time Hasn't Come," *Journal of Public Budgeting, Accounting & Financial Management* 27:2 (Summer 2015): 156, https://www.emeraldinsight.com/doi/pdfplus/10.1108/JPBAFM-27-02-2015-B002.

Over time, inequities due to assessment limits can become extreme. In New York City, a newly purchased median-value home faces a 57 percent higher property tax bill than a house of identical value owned for the average duration of ownership in the city, according to an analysis by the Lincoln Institute of Land Policy. The premium is 53 percent in Los Angeles, 40 percent in Miami, and 21 percent in Detroit, to cite just a few further examples.[21] A well-designed tax limitation regime keeps taxes in check across the board, but frequently the result of an assessment limit is merely to shift the tax burden from one class of homeowners to another.

TABLE 2.

Rate Differentials Between New and Existing Housing

Existing Housing at Median Duration of Ownership

City	Rate Differential
Phoenix, AZ	12.1%
Los Angeles, CA	53.0%
Miami, FL	39.9%
Chicago, IL	4.7%
Detroit, MI	21.2%
New York City, NY	57.3%
Portland, OR	19.6%
Dallas, TX	0.0%

Source: Lincoln Institute of Land Policy

Assessment Limit Design

The design of an assessment limit, moreover, greatly influences just how consequential it may be for states. Some limitations restrict annual growth above a previous high-point assessment, but many only feature a one-year lookback. This can create a downward ratchet effect during a recession. If housing values plummet, property tax collections will decline with or without an assessment limit. Even once property values have recovered, however, a low assessment cap can substantially delay the recovery of property tax revenue.

Finally, an assessment limit alone does not safeguard against tax increases; at most it limits the ability of taxes to rise incidentally, rather than as a matter of policy. It may be politically inexpedient to raise rates under some circumstances, but nothing in an assessment limitation regime constrains local government officials from circumventing revenue constraints caused by an assessment limit simply by raising millages. Due to the distortions and inequities that assessment limits introduce, they are one of the less attractive options for property tax relief.

21 "50-State Property Tax Comparison Study for Taxes Paid in 2016," 104

Rate Limits

Perhaps the most straightforward of property tax limitations, rate limits impose a cap on property tax millages. In some cases, limits are placed on each taxing jurisdiction or authority individually; other times, caps are imposed on each level of government or even in aggregate. Most rate caps are frozen at a particular level, but they can also be structured to limit the size of rate increases rather than to prohibit them outright. Often a rate limitation can be overcome by voter approval of a ballot measure override, and in some cases it may be possible to increase revenue under a rate cap by adjusting assessment ratios or eliminating property tax exemptions or abatements.

Compared to assessment limits, a rate limit is a more neutral vehicle for tax limitation, because it does not result in substantially similar properties facing radically different tax burdens. It is, of course, possible for property tax burdens to rise—even dramatically—under a rate limitation regime, due to rising property values, new development, or changes to the tax base.

When rate limits are applied selectively, with some taxing authorities subject to the limits and others exempted, governments may respond by shifting responsibilities. All local property tax limitations have the potential to incentivize state aid to localities over local revenue sourcing, but if, for instance, a rate cap applies to school district taxes but not to county taxes, over time the counties may take on additional responsibility for school funding.

Split Roll Taxation

In some instances, rate limits can have the benefit of indirectly discouraging “split roll” taxation, where different classes of property (e.g., residential, commercial, industrial, agricultural) are taxed at different rates or are subject to different assessment ratios. If rate limits are sufficiently low that jurisdictions tend to impose rates at or near the cap, and maintain assessment ratios at or near 100 percent, then it is difficult for a differential between types of property to emerge.

Uniformity in property taxation is highly desirable. Split roll taxation is nonneutral and economically inefficient, increasing revenue volatility and undermining business competitiveness. Property taxes constitute the single largest share of businesses’ state and total tax liability, accounting for 38.4 percent of subnational business taxes in fiscal year 2016.[22] When business property tax rates are set independently of residential rates, they tend to be increased more frequently. Rate limits, however, are a poorly calibrated tool for this purpose; instead, many states impose constitutional uniformity clauses or adopt other prohibitions on split roll taxation.

22 Andrew Phillips, Caroline Sallee, and Charlotte Peak, “Total State and Local Business Taxes: State-by-State Estimates For Fiscal Year 2016,” Council on State Taxation (August 2017): 3, http://cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-studies-articles-reports/fy16-state-and-local-business-tax-burden-study.pdf.

Levy Limits

Unlike rate caps, levy limits impose a hard constraint on revenue growth, and have the same revenue effects as imposing both a rate and an assessment limit in concert, though without the inequities and distortions associated with assessment limits.[23] Although different states' levy limits vary in important particulars, the prototypical levy limit restricts the increase in property tax collections to a certain amount or forbids them from rising above a given level.

Some states have a fixed-percentage growth cap, while other states tie the cap to the rate of inflation, and still others use the lesser of a statutorily-specified growth cap or the rate of inflation. A few states, like Massachusetts, impose an absolute ceiling on collection. New construction and improvements are frequently, but not invariably, exempted, and levy limits may apply to all levels of government or just to select taxing authorities. In most cases, local voters are empowered to override the levy limit at the ballot box.[24]

Like rate limits and unlike assessment limits, levy caps do not necessarily protect all taxpayers individually from substantial tax increases. Policymakers remain free to adjust rates and assessment ratios within the overall revenue cap, and if only certain properties or classes of properties appreciate in value substantially, the owners of those properties may experience tax increases considerably in excess of any limitation on the increase in levies as a whole.

State Examples of Levy Limits

Massachusetts' Proposition 2 ½ imposes both a levy ceiling and a levy limit, in the state's terminology. The levy ceiling prohibits total property tax collections from exceeding 2.5 percent of the fair market value of all taxed property, while the levy limit caps the annual increase in collections at 2.5 percent plus new construction.[25] Both components represent forms of levy limit—one a constraint on revenue growth, the other an absolute cap on collections. Alaska, meanwhile, limits annual revenue to $1,500 per resident, while Michigan adopted a rollback that prevents collections from growing faster than the inflation rate. Practices vary, but levy limits of all sorts impose strictures on the growth of property tax revenues overall, though they lack safeguards which prevent any individual taxpayer's bill from rising.

23 Mark Haveman and Terri A. Sexton, "Property Tax Assessment Limits: Lessons from Thirty Years of Experience," 32.

24 See, e.g., Katharine L. Bradbury, Christopher J. Mayer, and Karl E. Case, "Property Tax Limits, Local Fiscal Behavior, and Property Values: Evidence from Massachusetts Under Proposition 2½," *Journal of Public Economics* 80 (2001): 290.

25 Massachusetts Department of Revenue, Division of Local Services, "Levy Limits: A Primer on Proposition 2½" (June 2007): 4-6, http://www.mass.gov/dor/docs/dls/publ/misc/levylimits.pdf.

Cautions and Best Practices

All property tax limitations, whatever their features, serve as a constraint on local government. In broad terms, levy limits function as a revenue constraint, rate limits as a policy constraint, and assessment limits as an individual burdens constraint. The degree to which such constraints are perceived as desirable will necessarily vary, and those differences may not divide neatly along ideological lines.

Advocates of smaller government, for instance, are often also advocates of fiscal federalism and of more decisions being made at the local level, so if property tax limitations are accomplished by shifting tax and spending authority to the state, this might represent a loss of desired localism.[26] Similarly, a constraint that applies only to property taxation might induce a greater reliance on income and other taxes, which may be less favored for economic or other policy or political reasons.[27]

Property taxes are among the more economically neutral taxes, demonstrating a much smaller influence on economic decision-making than most alternative modes of taxation.[28] As an immobile asset, tax competition and tax avoidance activities arising from their taxation are less pronounced than they would be from other available tax options.[29] At the margin, income taxes discourage labor and investment and may induce inefficient efforts at avoidance. Many other taxes pick winners and losers by favoring or disfavoring a range of economic activities. Property taxes, by contrast, tend to be more economically neutral.[30]

Property taxes also come closer to passing the benefit test, whereby taxes paid roughly correlates with benefits received. However imperfect, the value of one's property is a better proxy for the value of local services received than most alternative tax bases. More than at other levels of government, local services often align closely with property and property values. Roads, utilities, police and fire protection, and local public amenities all increase or preserve the value of property, and, if supplied privately, would likely increase in worth with higher property values.[31] If, therefore, aggressive property tax limitations drive localities to shift to alternative revenue options, the net economic effect may be negative.

For these and other reasons, governments may wish to exercise caution in adopting any regime of property tax limitation. At the same time, the major waves of property tax revolts often had good cause, with tax liability rising well in excess of any possible increase in the value of government services. Local governments which are more sensitive to automatic tax increases, and which seek to

26 See, e.g., Joan M. Youngman, "The Variety of Property Tax Limits: Goals, Consequences, and Alternatives," *State Tax Notes Special Report* (Nov. 19, 2007): 542, http://www.lwvny.org/advocacy/education/Scan9.pdf.

27 Isaac W. Martin, "What Property Tax Limitations Do to Local Finances: A Meta-Analysis," Institute for Research on Labor and Employment Working Paper (May 2015): 1, http://escholarship.org/uc/item/1wj2t7cs.

28 Jens M. Arnold, Bert Brys, Christopher Heady, Heady, Åsa Johansson, Cyrille Schwellnus, and Laura Vartia, "Tax Policy for Economic Recovery and Growth," *The Economic Journal* 121:550 (February 2011).

29 For a discussion of strategic competition in property tax regimes, see Jan K. Brueckner and Luz A. Saavedra, "Do Local Governments Engage in Strategic Property-Tax Competition?" *National Tax Journal* 54:2 (June 2001): 203-230, https://www.ntanet.org/NTJ/54/2/ntj-v54n02p203-30-local-governments-engage-strategic.pdf?v=%CE%B1&r=03589733876287937.

30 Bruce Wallin and Jeffrey Zabel, "Property Tax Limitations and Local Fiscal Conditions: The Impact of Proposition 2½ in Massachusetts," Lincoln Institute of Land Policy Working Paper (2010): 4, http://www.lincolninst.edu/sites/default/files/pubfiles/1885_1200_wallin_zabel_wp11bw1.pdf.

31 Id., 4-5.

curb them voluntarily when a rise in assessed values outpaces the need for expanded services, may be able to avoid the circumstances which often lead to a groundswell of support for property tax limitations.

Political scientists have developed a range of theories of governmental action, but two competing models are particularly apt for considerations of property tax limitation regimes: the Leviathan model, and that of effective electoral competition. The Leviathan model suggests that governmental decision-makers are largely unmoored from the preferences of the voting public: that, either out of bureaucratic inertia or a lack of meaningful electoral constraints, public officials disregard the wishes of the voting public for extended periods with few, if any, consequences. The effective electoral competition model operates on the assumption that, should public officials diverge too sharply from the preferences of the electorate, they will be replaced, which both constrains their scope of action and provides for their removal if they act outside of those constraints.[32]

If the electoral competition model is sound, and is accepted by the general public, then policy and revenue constraints will have little appeal. Elected officials sufficiently attuned to the preferences of the people do not require other restrictions on their authority. If, however, officials are not particularly accountable to the people—or at least the people do not believe they are—then guardrails on their authority become more alluring.

When rate or levy limit regimes contain ballot override provisions, voters frequently consent to higher taxes at the polls, a willingness that some regard as undercutting the central rationale for such limits. It is reasonable to think, however, that public officials may be more circumspect in pursuing increases if they must appear on the ballot, and that voters may be more amenable to increases if the case is put to them directly. That many ballot measures to waive limitations have been approved does not tell us how many times taxes might have been increased had the process not been subject to voter approval.

Should elected officials prove responsive to voter preferences, property tax limitations might be avoided altogether, along with the drawbacks of each approach. To the extent, however, that such limitations prove attractive, an understanding of the distinctions is crucial.

Assessment limits provide the strongest defense against any individual experiencing a sizable tax increase through inertia alone, but introduce significant inequities and economic distortions. Levy limits do not prevent individuals from experiencing such an increase should their property's value rise substantially faster than those of surrounding properties, but limit the growth of property tax revenues overall. Finally, rate limits impose a policy constraint on local government officials, and—like levy limits—avoid the inequities associated with assessment limits, but they do not shield homeowners from the consequences of rising home values.

32 See generally, David M. Cutler, Douglas W. Elmendorf, and Richard J. Zeckhauser, "Restraining the Leviathan: Property Tax Limitation in Massachusetts," NBER Working Paper 6196 (September 1997), http://www.nber.org/papers/w6196.pdf.

Each of these property tax limitation regimes has its own set of advantages and disadvantages, and each addresses a different set of priorities. There is no perfect limitation system; for many, none may be desirable. A proper understanding of the trade-offs, however, along with an appreciation of the economic advantages of property taxes, should inform any such consideration.