A Fair Assessment

Assessment Limits Create Tax Disparities that Obstruct Homeownership

BY JON GOREY

Two Miami townhouses—built the same year, in the same Coconut Grove condo complex, with matching floor plans, identical balconies, and equivalent square footage—bear a striking resemblance to each other. Except for their property tax bills.

The owners of one unit, who purchased their townhome soon after it was built in 2006, will owe $4,092 in property taxes for 2024. Their new neighbors a few doors down, who bought their townhome last year, will pay more than three times as much in property taxes this year: $14,693, or almost $900 more per month.

The discrepancy can be traced to the State of Florida's "Save Our Homes" amendment, which since 1995 has capped property tax assessment increases on primary (or "homestead") residences to three percent a year or the rate of inflation, whichever is less, until the property changes hands.

By capping the rate at which a home's assessed value can increase each year, assessment limits ensure that a property's tax bill doesn't skyrocket, even if its market value does. But that can also lead to disparities and distortions in local housing markets, creating winners and losers.

Florida's assessment limit is similar to one established by the State of California's Proposition 13, which since the 1970s has capped annual assessment increases at the lesser of two percent or inflation. About a dozen other states and Washington, D.C., also have some kind of assessment limit in place, which can create dramatic tax bill discrepancies between new and longtime homeowners.

In a recent 50-state comparison study of property taxes paid in 2023,[1] researchers from the Lincoln Institute of Land Policy and the Minnesota Center for Fiscal Excellence found that, among major U.S. cities, the City of Miami has the largest discrepancy in property tax obligations between new homebuyers and existing homeowners.[2] Someone who bought a median-priced Miami home in 2023, for example, would owe $9,205 in annual property taxes—almost three times more than someone who's owned their nearly identical, comparably priced home for 12 years. New homebuyers in the cities of Tampa, Jacksonville, New York City, Oakland, and Sacramento pay more than twice as much in property taxes as longtime homeowners in similarly valued homes.

The difference in those tax bills often adds hundreds of dollars to a new buyer's housing payment each month. That's not just inequitable—it adds yet another cost hurdle for first-time buyers already struggling with higher home prices and mortgage rates.

One more hurdle to homeownership

"The tax disparities from assessment limits are increasingly a barrier to homeownership," said Adam Langley, associate director of tax policy at the Lincoln Institute. "New homeowners, who are already paying so much more in mortgages due to rising home values and interest rates, are also paying significantly higher property tax bills in some places."

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>
> **DARYL FAIRWEATHER**, CHIEF ECONOMIST, REDFIN

Consider the headwinds already facing first-time homebuyers in a city like Miami. The median home price in the Miami metro area has risen by $139,000 since September 2021, according to data from the national brokerage Redfin—a 34 percent increase, from $410,000 to $549,000.

Meanwhile, even though mortgage rates have ticked down from the 20-year highs of 2023, in September 2024 the average interest rate on a 30-year mortgage (6.2 percent) was still nearly four percentage points higher than it was three years before (2.35 percent), according to Freddie Mac. This makes financing a home far more expensive.

What does that add up to in actual housing costs? Someone who purchased a typical $410,000 Miami home in September 2021 with a conventional 30-year mortgage would have needed $82,000 for a standard down payment, and enough income to cover a $1,271 monthly mortgage payment before taxes, insurance, and HOA fees.

Today, buying the same median-priced Miami home would require a six-figure down payment of $109,800, and a monthly mortgage payment of $2,690—more than an additional $1,400 per month, largely due to higher interest rates and home prices (see Exhibit 1). And that's before the property tax discrepancy that forces new homebuyers to pay hundreds of dollars more per month for the same services.

"For first-time buyers, this extra cost, on top of already high home prices and rising interest rates, can make the difference between affording a home and being priced out of the market altogether," said Zev Freidus, president and broker at ZFC Real Estate. "It's a frustrating dynamic because buyers often feel like they're penalized for simply entering the market later, and this can lead to them reconsidering certain areas or downgrading their expectations."

The tax cap is "incredibly popular with current homeowners," Freidus adds, but it creates real barriers for new buyers and adds another layer of financial stress. "Many buyers don't anticipate just how much their tax bill will jump until they've already made an offer," he said. "I always emphasize this to first-time buyers, so they can budget accurately—but the difference in property tax payments can still come as a shock."

Shifting the burden

Property taxes are the primary source of revenue for many municipalities, funding essential services like police, fire, and schools, and they are generally considered a good tax—relatively transparent, fair, and stable through economic cycles.

By shifting some of the property tax burden according to tenure, however, assessment limits tend to make that fair tax less fair, said Daryl Fairweather, chief economist at Redfin. "There's the inherent unfairness that existing homeowners—who already have all this equity in their home, who are already in a good financial position because they don't have to deal with rising rents—are the ones who, on top of that, get this tax benefit," she said.

"In practice, in most places, the research shows that assessment limits shift the tax burden away from wealthier neighborhoods toward poorer neighborhoods," Langley adds.

In California, where Proposition 13 has limited annual assessment increases to the lesser of two percent or inflation since the 1970s, "higher-income Californians own more homes and own homes of higher value and, therefore, receive the majority of the total dollars of tax relief provided to homeowners by Proposition 13," wrote the authors of a Lincoln Institute report prepared for the 30th anniversary of the famous—and famously controversial—California tax legislation.[4] "Limits on assessed values, while favored by many homeowners, are a deeply flawed means to counter rising property taxes."

Such assessment limits can also compound previous or entrenched inequities. "When you think about the people who were able to be homeowners when Prop 13 was enacted, they had likely benefited at least somewhat from redlining and the other unfair housing policies that were allowed before the Fair Housing Act," Fairweather said.

In New York City and Oregon, assessment limits don't reset when a property is resold. "That helps address some inequities between new and longtime homeowners, but it can create even larger disparities across neighborhoods," Langley said. "In New York City, it's basically like your tax is based on a 1981 value. So, you have huge swaths of Manhattan, for example, that are paying very low effective tax rates relative to places in, say, the Bronx, that haven't appreciated as much over the last four decades." Assessment limits that don't reset at sale also discourage new construction, since those homes bear a higher tax burden, and the permanent reduction in the tax base creates even larger tax shifts or revenue losses.

An assessment limit can also be "very distortionary for the housing market," Fairweather added, because "it tends to encourage people to stay in the same home for longer than they would in the absence of this policy, because you lose the tax benefit when you move." That can lead to a mismatch of housing preferences and realities: empty nesters staying in four-bedroom houses instead of downsizing, growing families sticking it out in smaller homes despite a need for more space, and young homebuyers stuck on the sidelines waiting for a starter home to free up.

EXHIBIT 1 | **Costs for existing versus new homebuyers**

	Existing homeowner (purchased in 2021)	New homebuyer (purchased in 2024)
Down payment	$82,000	$109,800
Mortgage payment	$1,271	$2,690
Estimated property taxes*	$615	$847
Median HOA fee[3]	$835	$835
Total monthly housing costs (+$1,651/mo.)	$2,721	$4,372

*Assumes a mill rate of 20.0332 (based on rates for the City of Miami) and a full homestead exemption ($25,000 for school taxes; $50,000 for non-school taxes).

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To get around that "lock-in effect," Florida made its assessment limit portable, allowing existing homeowners to move their tax savings to their next home. California allows some seniors to do the same. "That's addressing one problem, but creating new problems that are arguably worse," Langley said. "It's eliminating the disincentive to move, which is good, but then it's heightening those tax disparities, because you're not even getting back to equity when people are selling."

Better ways to quell a tax revolt

When property values rise quickly, as they have in the past five years, property tax bills can rise sharply as well, if a community fails to readjust its tax rate.

These "silent" tax hikes can frustrate residents—such property tax increases inspired the tax revolts of the 1970s and '80s and the passage of Prop 13 in California—and particularly strain seniors or low-income homeowners, especially in gentrifying neighborhoods.

State and local officials looking to rein in property tax growth or offer tax relief to vulnerable residents should consider alternatives to assessment limits, said Langley.

Tax rate adjustments. The simplest way for a community to constrain rampant tax growth is to regularly adjust its property tax rate in response to changes in its property tax base, a process sometimes called mill rate offsetting. (The "mill rate" is the amount of tax levied per $1,000 of assessed value.) "Local governments have the discretion in most states to reduce their tax rates if property values are going up rapidly—and they should be doing that," Langley said.

"Property tax bills should be determined fundamentally by spending needs, not property values. So, when property values go up a ton, tax rates should, most of the time, go down considerably," Langley said. Meanwhile, in a situation where home values plummet, such as during the Great Recession, "rates probably need to go up to help stabilize revenues."

Truth in Taxation. Twenty states have some kind of "Truth in Taxation" or "full disclosure" law in place, according to a new Lincoln Institute working paper.[5] These policies require taxing entities to disclose any proposed increase in property tax revenues—whether due to higher tax rates or property values—and to hold a public hearing on the proposal. Most such states also require the local governing body to vote for any increase in the levy; they can't simply leave rates unchanged and let taxes increase while "doing nothing."

Unlike tax or assessment caps, Truth in Taxation measures don't impose a uniform, binding limit on every community in a state, nor do they prevent a municipality from raising more property tax revenue when needed; the local government just needs to disclose that fact to the public. More often than not, research shows that an increase in transparency and accountability is enough to temper tax growth.

"Truth in Taxation grants local governments the discretion and flexibility to adopt tax revenue increases that align with local needs and preferences," wrote Yonhui Um, author of the working paper and a senior policy and legal analyst at the Lincoln Institute. "As long as taxpayers are informed of the proposed tax increase and have an opportunity to weigh in on the proposal at a public hearing."

Circuit breakers. Just as an electrical circuit breaker prevents a temporary overload of electrical current, a property tax circuit breaker targets tax relief to homeowners paying the highest share of their income in property taxes—such as seniors on fixed incomes, low-income homeowners in gentrifying neighborhoods, or those facing a sudden job loss or drop in income. A circuit breaker policy can ensure that no homeowner would have to pay more than, say, five percent of their income in property taxes. At that threshold, a household with $20,000 in income and a property tax bill of $2,000 would only have to pay the first $1,000 of their tax bill.

"In our view, the share of income spent on property taxes is the most meaningful measure of who needs relief," Langley said. Someone who pays a very small portion of their income in property taxes, despite their home increasing in value, probably doesn't need relief urgently. "Conversely, maybe you lost your job. Even if your property tax bill hasn't gone up at all, you might end up in tax foreclosure if you don't receive any tax relief. So, a circuit breaker would make sure those people receive relief."

Homestead exemptions. A simple and common way municipalities and states offer property tax relief is through a homestead exemption, which provides homeowners with either a partial exemption from the property tax or a partial credit against their tax bill, but only on a primary "homestead" residence.[6] This broad-based policy shifts the tax burden toward businesses, renters, and second-home owners, and can especially benefit low- and middle-income homeowners if applied as a fixed-dollar exemption.

Deferrals. Property tax deferral programs are most often targeted to seniors who are housing-rich but income-poor; imagine a retiree living off Social Security benefits in the home she's owned for decades, in which time both its value and tax bill have increased sharply. Tax deferrals allow such homeowners to delay the payment of their property taxes until they sell the home—at which point, the full amount of deferred tax becomes due, typically with interest and paid for with the proceeds of the home sale. Unlike other forms of tax relief, deferrals impose no long-term cost on other taxpayers.

Why tie your hands?

Each of these alternatives has its own pros and cons—as described in the Lincoln Institute Policy Focus Report, Property Tax Relief for Homeowners.[7] But they're all generally easier to tweak or adjust than an assessment limit, Langley said, which can be extremely difficult to reform after it's enacted into law.

And while an assessment cap is typically a popular idea among existing homeowners, many overestimate its value. "There are a lot of people who perceive themselves as winners from an assessment limit when they're actually losing out," Langley said. "There's research in Cook County, Illinois, and in New York City, for example, that shows a significant majority of homeowners are actually paying more under an assessment limit than they would without it, because the assessment limit requires a higher tax rate."

Fairweather contended that there's another way to rein in property taxes—by building more housing. "The reason people revolt against the taxes when property values go up is that they're not linking it to the root cause, which is that there aren't enough homes to keep property values in check," she said. "The way to get property values down is to actually build more. But I think a lot of homeowners want to have their cake and eat it, too, in the sense of wanting more home equity. They like that part of property values going up, but they don't like the higher taxes. They want the benefit, but they don't want any of the cost."

She notes that placing hard-and-fast restrictions on property taxes and assessments doesn't just create inequitable situations for homeowners paying different tax bills on identical properties. It can hamstring a community and set the stage for long-term challenges—especially when the policy discourages first-time homebuyers.

States that cap property taxes leave local governments with "one arm tied behind their backs when it comes to raising revenue to support things like schools and local services," she said. "And anything that reduces housing affordability for first-time homebuyers is going to make it harder for a city to attract workers—it'll be harder to attract teachers, police officers, anybody who works to keep the city running in that middle-income band."

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1 *50-State Property Tax Comparison Study for Taxes Paid in 2023*, Lincoln Institute of Land Policy and the Minnesota Center for Fiscal Excellence, July 2024.

2 Kristina McGeehan, "Property Tax Report Highlights Large Inequities Created by Assessment Limits, *Land Lines* magazine, Lincoln Institute of Land Policy, July 23, 2024.

3 Lily Katz, Sheharyar Bokhari, and Grishma Bhattarai, "Condo HOA Fees Surge in Florida Amid Insurance Crisis," *Redfin News*, August 22, 2024.

4 Joan Youngman, *A Good Tax: Legal and Policy Issues for the Property Tax in the United States*, Lincoln Institute of Land Policy, March 2016.

5 Yonhui Um, State Requirements Under Truth in Taxation Laws for Property Taxes, working paper, Lincoln Institute of Land Policy, June 2024.

6 Jon Gorey, "This Simple Policy Tool Can Make Property Taxes Fairer and Ease Homeowner Hardship," *Land Lines* magazine, Lincoln Institute of Land Policy, December 6, 2022

7 Adam H. Langley and Joan Youngman, Property Tax Relief for Homeowners, Lincoln Institute of Land Policy, November 2021.