Municipal Tax Reform

History

"Property Tax" can be traced back to the 14^{th} and 15^{th} centuries in Europe. Assessors used ownership or occupancy of property to estimate a citizen's ability to pay. Eventually, this began to be seen as a tax on the property itself.

Some form of "property tax" has been the established basis of municipal tax revenue since colonial times. In an era when agriculture and manufacturing were the main stays of the US economy, assessing a citizen's ability to pay using land and the means to manufacture (property) was no doubt a reasonable method.

Assessment Equity

In today's mixed economy, largely dominated by service and information, property assessment is no longer a reliable measure. According to a recent 2014 report by the Connecticut Conference of Municipalities, "Property taxes are regressive and hit lower-income residents harder." (http://ccm-docs.org/CB_Proptax/PropTax.html#p=2)

Over the years there has been a "band aid" approach taken attempting to make the system more equitable. The time for band aids has passed. Serious tax reform is needed to solve these problems in a comprehensive way.

Again from the CCM report

> "It is increasingly clear that the over-reliance on the *property tax* (emphasis added) is inadequate for funding local government services in Connecticut, particularly preK-12 public education, and is no longer advisable nor sustainable.
>
> What worked in 1814 doesn't work in 2014."

Assessment Formula

Local taxes in New Milford and in municipalities across the US are assessed using property as a basis. The assessed values of "real property" in town (homes, land, permanent structures, etc.) are added together to compile what is called the grand list. The total of the grand list is divided into the total tax to be raised to determine what is known as the "mil rate." The mil rate is multiplied by the value of each citizen's individual assessed property to determine the tax owed.

For the last 10 years, I have been promoting the idea of changing the assessment basis for local taxes. The formula including the grand list, tax to be raised and mil rate would all remain. The change I suggest is to change the basis of the grand list from property to income, for example to use each individual’s AGI.

Taxpayer Savings

Under our current system, towns need to support assessors and their offices to track the value of property. They also must periodically perform a revaluation or "reval," often conducted using an outside company. Revaluations are either statistical, based on changes in economic indicators, or physical, based on direct inspection of properties within the municipality. These inspections run into the hundreds of thousands and often millions of dollars in larger municipalities. These costs are eliminated under a system based on income assessment.

Using an income based assessment, we realize local savings by piggy backing on the work done by the state and federal revenue departments. There is no need for an assessment department or to bring in high cost consultants to perform revaluations. Annualized savings in New Milford alone, the last time I calculated them, would be in excess of $300,000.00 per year. Imagine, saving $300,000.00 per year with no loss of essential revenue and no cut in vital programs.

There would be no additional forms to fill out as the state and federal governments already collect the information. There would be no cost for auditing as the state and federal governments already do this. The state department of revenue services would simply download the grand list to each town. The towns would then calculate their mil rates and send out their bills.

Tax Relief

From the recent 2014 Connecticut Conference of Municipalities report: “The property tax is income-blind and profit-blind. It is due and payable whether a resident has a job or not, or whether a business turns a profit or not.”

An income-based assessment system will be responsive to those in need of relief including the elderly. Their homes continue to appreciate in value while their incomes remain flat or decrease as the income of their neighbors continues to rise. Under our current system many elderly are forced to leave their homes due to a rising tax burden. Under an income-based assessment, as their neighbor’s incomes continue to rise, those on fixed income will be shouldering a lesser part of the tax burden.

Those who are laid off from their jobs face hardships. Finding yourself house rich and income poor leads to foreclosures and other challenges. Under an income-based assessment these people would see tax relief.

Levels the Business Playing Field

According to the Connecticut Conference of Municipalities, property taxes are the largest tax on Connecticut businesses.

Taxes on businesses are more equitable under an income-based (profit-based) assessment. Currently, businesses that have a high degree of capitalization (like manufacturing) pay a higher amount of taxes while those with lesser capitalization (like retail) pay less, regardless of profitability. Income-based assessment would place all businesses on an even footing and allow municipalities to recover additional revenues from profitable information and service-based businesses.

The need for tax abatements for new businesses during their less profitable start up years would also be lessened under a system based upon income rather than property, since taxation would be responsive to profitability by design.

Social Mobility Enhanced

To move to a "better neighborhood" or upgrade your home, you need not only the money to pay for the home, but also the income to support the "social dues" in the form taxes that will ensue. This keeps people segregated into particular neighborhoods based on income because saving and prudent financial management are not enough. The Connecticut Business and Industry Association reported on the influence of local taxes on economic mobility citing:

> "State and local tax burdens directly impact economic mobility--the ability to move up and down the income ladder--according to Harvard and Berkeley university researchers collaborating on The Equality of Opportunity Project.
>
> They found 'a significant correlation between both measures of mobility and local tax rates.'"

(The study can be found at http://obs.rc.fas.harvard.edu/chetty/mobility_geo.pdf)

These pressures toward social stratification are relieved under an income-based assessment.

Relieves Pressure on Open Space

Our current system puts negative pressure on investment in property. Given $200,000 to invest, an investment in land could lose as much as $45,000, or more, over a ten-year period due to property-based assessment of municipal taxes. Owners are faced with a disincentive to retain open space.

Municipalities, faced with the need to improve their revenue sources, feel pressure to release open space parcels to help improve their grand list. An income-based assessment reduces or removes these pressures.

What Do We Do?

Again from the CCM report:

> “The revenue options available to Connecticut towns and cities are limited by state statute. The property tax is the only tax over which municipalities have significant authority. Municipalities can levy a conveyance tax on real estate transactions, but that tax rate is set by the State and provides a relatively small amount of revenue.
>
> Similarly, municipalities can levy fees and charges to cover some of the costs of providing services. These are again limited by state law and cannot be used to raise revenue, only to cover necessary costs.
>
> All of this means that, in terms of generating revenue, Connecticut towns and cities are effectively limited to the regressive and antiquated property tax.”

Under Connecticut’s current laws and regulations, municipalities cannot take independent steps to address these issues. In order for this kind of change to take place we need state action. Our next step must be to elect and communicate with legislators willing to work to bring about these reforms. You need someone in Hartford willing to do the hard work to make this happen. This is one of the reasons I'm running for state representative.

I'm asking you to join me in calling for these changes. I’m asking you to take a step that will save taxpayers money while protecting vital services. I’m asking you to take a stand for something that will make Connecticut more business friendly, particularly for our manufacturing future. And I’m asking you to stand up for our working middle class families and elderly to give them the comprehensive kind of tax relief they really need.

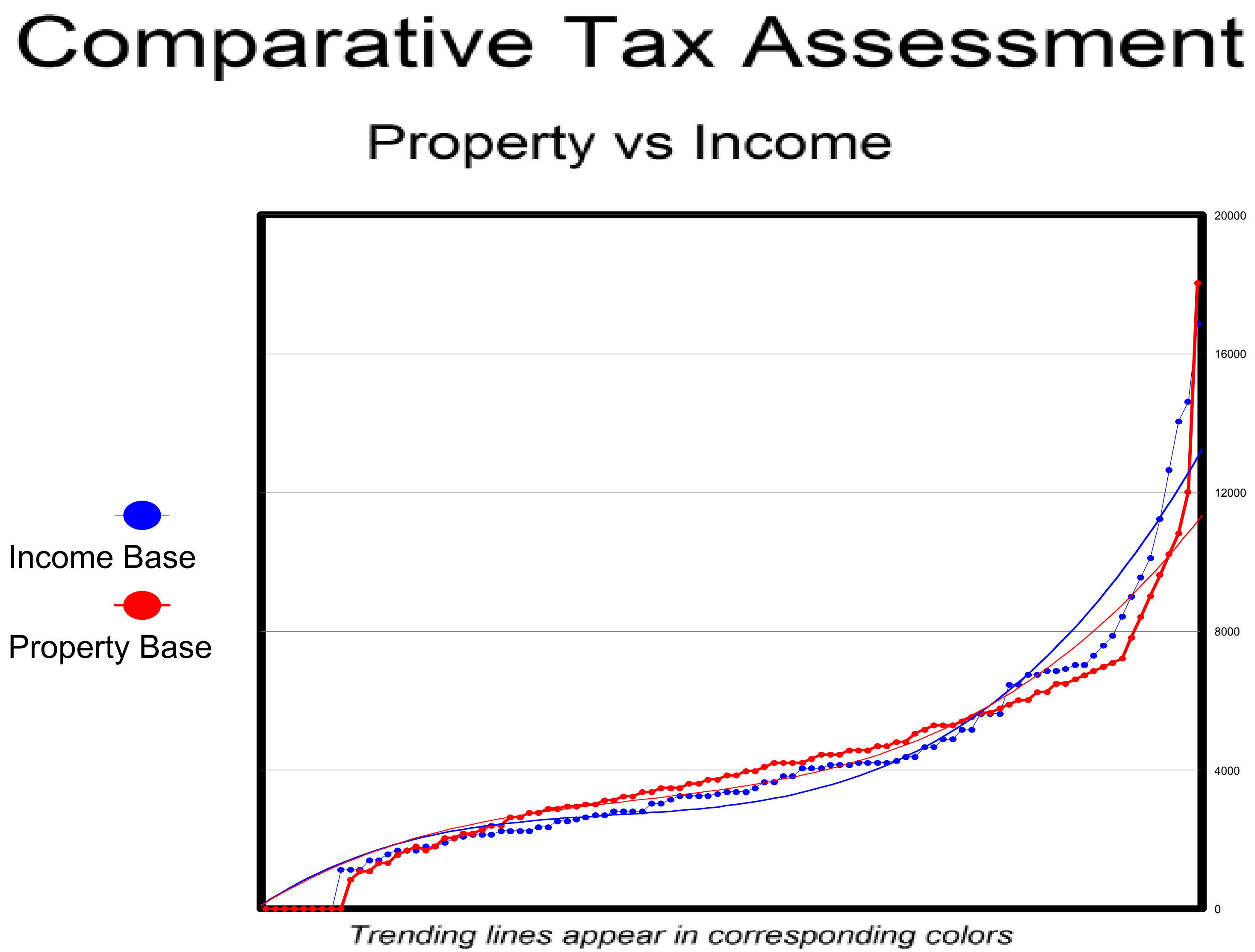
Gale Alexander
Candidate
67th House Assembly District

Addendum A – Grand List Model Data

Income	Tax	Home Value	Tax	Ratio	Savings	Percent
$8,900.00	$0.00	$0.00	$0.00	0.00	0.00	
$9,200.00	$0.00	$0.00	$0.00	0.00	0.00	
$9,700.00	$0.00	$0.00	$0.00	0.00	0.00	
$10,000.00	$0.00	$0.00	$0.00	0.00	0.00	
$12,000.00	$0.00	$0.00	$0.00	0.00	0.00	
$12,000.00	$0.00	$0.00	$0.00	0.00	0.00	
$15,000.00	$0.00	$0.00	$0.00	0.00	0.00	
$15,000.00	$0.00	$0.00	$0.00	0.00	0.00	
$20,000.00	$1,124.66	$0.00	$0.00	0.00	(1124.66)	
$20,000.00	$1,124.66	$35,000.00	$842.22	1.75	(282.44)	-33.53%
$20,000.00	$1,124.66	$45,000.00	$1,082.86	2.25	(41.80)	-3.86%
$25,000.00	$1,405.83	$45,000.00	$1,082.86	1.80	(322.97)	-29.83%
$25,000.00	$1,405.83	$55,000.00	$1,323.50	2.20	(82.33)	-6.22%
$28,000.00	$1,574.53	$55,000.00	$1,323.50	1.96	(251.03)	-18.97%
$30,000.00	$1,686.99	$65,000.00	$1,564.13	2.17	(122.86)	-7.85%
$30,000.00	$1,686.99	$70,000.00	$1,684.45	2.33	(2.54)	-0.15%
$30,000.00	$1,686.99	$75,000.00	$1,804.77	2.50	117.77	6.53%
$32,000.00	$1,799.46	$70,000.00	$1,684.45	2.19	(115.01)	-6.83%
$32,000.00	$1,799.46	$75,000.00	$1,804.77	2.34	5.31	0.29%
$34,000.00	$1,911.92	$85,000.00	$2,045.40	2.50	133.48	6.53%
$36,000.00	$2,024.39	$85,000.00	$2,045.40	2.36	21.01	1.03%
$37,000.00	$2,080.62	$90,000.00	$2,165.72	2.43	85.10	3.93%
$38,000.00	$2,136.86	$90,000.00	$2,165.72	2.37	28.86	1.33%
$38,000.00	$2,136.86	$95,000.00	$2,286.04	2.50	149.18	6.53%
$38,000.00	$2,136.86	$100,000.00	$2,406.36	2.63	269.50	11.20%
$40,000.00	$2,249.32	$100,000.00	$2,406.36	2.50	157.03	6.53%
$40,000.00	$2,249.32	$110,000.00	$2,646.99	2.75	397.67	15.02%
$40,000.00	$2,249.32	$110,000.00	$2,646.99	2.75	397.67	15.02%
$40,000.00	$2,249.32	$115,000.00	$2,767.31	2.88	517.99	18.72%
$42,000.00	$2,361.79	$115,000.00	$2,767.31	2.74	405.52	14.65%
$42,000.00	$2,361.79	$120,000.00	$2,887.63	2.86	525.84	18.21%
$45,000.00	$2,530.49	$120,000.00	$2,887.63	2.67	357.14	12.37%
$45,000.00	$2,530.49	$123,000.00	$2,959.82	2.73	429.33	14.51%
$46,000.00	$2,586.72	$123,000.00	$2,959.82	2.67	373.10	12.61%
$47,000.00	$2,642.95	$125,000.00	$3,007.94	2.66	364.99	12.13%
$48,000.00	$2,699.19	$125,000.00	$3,007.94	2.60	308.76	10.26%
$48,000.00	$2,699.19	$130,000.00	$3,128.26	2.71	429.07	13.72%
$50,000.00	$2,811.65	$130,000.00	$3,128.26	2.60	316.61	10.12%
$50,000.00	$2,811.65	$135,000.00	$3,248.58	2.70	436.93	13.45%
$50,000.00	$2,811.65	$135,000.00	$3,248.58	2.70	436.93	13.45%
$50,000.00	$2,811.65	$140,000.00	$3,368.90	2.80	557.24	16.54%
$54,000.00	$3,036.59	$140,000.00	$3,368.90	2.59	332.31	9.86%
$54,000.00	$3,036.59	$145,000.00	$3,489.21	2.69	452.63	12.97%
$56,000.00	$3,149.05	$145,000.00	$3,489.21	2.59	340.16	9.75%
$58,000.00	$3,261.52	$145,000.00	$3,489.21	2.50	227.70	6.53%
$58,000.00	$3,261.52	$150,000.00	$3,609.53	2.59	348.02	9.64%
$58,000.00	$3,261.52	$150,000.00	$3,609.53	2.59	348.02	9.64%
$58,000.00	$3,261.52	$155,000.00	$3,729.85	2.67	468.33	12.56%

$59,000.00	$3,317.75	$155,000.00	$3,729.85	2.63	412.10	11.05%
$60,000.00	$3,373.98	$160,000.00	$3,850.17	2.67	476.18	12.37%
$60,000.00	$3,373.98	$160,000.00	$3,850.17	2.67	476.18	12.37%
$60,000.00	$3,373.98	$165,000.00	$3,970.49	2.75	596.50	15.02%
$62,000.00	$3,486.45	$165,000.00	$3,970.49	2.66	484.04	12.19%
$65,000.00	$3,655.15	$170,000.00	$4,090.80	2.62	435.65	10.65%
$65,000.00	$3,655.15	$175,000.00	$4,211.12	2.69	555.97	13.20%
$68,000.00	$3,823.85	$175,000.00	$4,211.12	2.57	387.27	9.20%
$68,000.00	$3,823.85	$175,000.00	$4,211.12	2.57	387.27	9.20%
$72,000.00	$4,048.78	$175,000.00	$4,211.12	2.43	162.34	3.86%
$72,000.00	$4,048.78	$180,000.00	$4,331.44	2.50	282.66	6.53%
$72,000.00	$4,048.78	$185,000.00	$4,451.76	2.57	402.98	9.05%
$74,000.00	$4,161.25	$185,000.00	$4,451.76	2.50	290.51	6.53%
$74,000.00	$4,161.25	$185,000.00	$4,451.76	2.50	290.51	6.53%
$74,000.00	$4,161.25	$190,000.00	$4,572.07	2.57	410.83	8.99%
$75,000.00	$4,217.48	$190,000.00	$4,572.07	2.53	354.60	7.76%
$75,000.00	$4,217.48	$190,000.00	$4,572.07	2.53	354.60	7.76%
$75,000.00	$4,217.48	$195,000.00	$4,692.39	2.60	474.91	10.12%
$75,000.00	$4,217.48	$195,000.00	$4,692.39	2.60	474.91	10.12%
$76,000.00	$4,273.71	$200,000.00	$4,812.71	2.63	539.00	11.20%
$78,000.00	$4,386.18	$200,000.00	$4,812.71	2.56	426.53	8.86%
$78,000.00	$4,386.18	$210,000.00	$5,053.35	2.69	667.17	13.20%
$83,000.00	$4,667.34	$215,000.00	$5,173.66	2.59	506.32	9.79%
$83,000.00	$4,667.34	$220,000.00	$5,293.98	2.65	626.64	11.84%
$87,000.00	$4,892.28	$220,000.00	$5,293.98	2.53	401.70	7.59%
$87,000.00	$4,892.28	$220,000.00	$5,293.98	2.53	401.70	7.59%
$92,000.00	$5,173.44	$225,000.00	$5,414.30	2.45	240.86	4.45%
$92,000.00	$5,173.44	$230,000.00	$5,534.62	2.50	361.17	6.53%
$100,000.00	$5,623.31	$235,000.00	$5,654.93	2.35	31.63	0.56%
$100,000.00	$5,623.31	$235,000.00	$5,654.93	2.35	31.63	0.56%
$100,000.00	$5,623.31	$240,000.00	$5,775.25	2.40	151.95	2.63%
$115,000.00	$6,466.80	$245,000.00	$5,895.57	2.13	(571.23)	-9.69%
$115,000.00	$6,466.80	$250,000.00	$6,015.89	2.17	(450.91)	-7.50%
$120,000.00	$6,747.97	$250,000.00	$6,015.89	2.08	(732.08)	-12.17%
$120,000.00	$6,747.97	$260,000.00	$6,256.52	2.17	(491.44)	-7.85%
$122,000.00	$6,860.43	$260,000.00	$6,256.52	2.13	(603.91)	-9.65%
$122,000.00	$6,860.43	$270,000.00	$6,497.16	2.21	(363.27)	-5.59%
$123,000.00	$6,916.67	$270,000.00	$6,497.16	2.20	(419.51)	-6.46%
$125,000.00	$7,029.13	$275,000.00	$6,617.48	2.20	(411.66)	-6.22%
$125,000.00	$7,029.13	$280,000.00	$6,737.79	2.24	(291.34)	-4.32%
$130,000.00	$7,310.30	$285,000.00	$6,858.11	2.19	(452.19)	-6.59%
$135,000.00	$7,591.46	$290,000.00	$6,978.43	2.15	(613.03)	-8.78%
$140,000.00	$7,872.63	$295,000.00	$7,098.75	2.11	(773.88)	-10.90%
$150,000.00	$8,434.96	$300,000.00	$7,219.07	2.00	(1215.89)	-16.84%
$160,000.00	$8,997.29	$325,000.00	$7,820.65	2.03	(1176.64)	-15.05%
$170,000.00	$9,559.62	$350,000.00	$8,422.24	2.06	(1137.38)	-13.50%
$180,000.00	$10,121.95	$375,000.00	$9,023.83	2.08	(1098.12)	-12.17%
$200,000.00	$11,246.61	$400,000.00	$9,625.42	2.00	(1621.19)	-16.84%
$225,000.00	$12,652.44	$425,000.00	$10,227.01	1.89	(2425.43)	-23.72%
$250,000.00	$14,058.27	$450,000.00	$10,828.60	1.80	(3229.67)	-29.83%
$260,000.00	$14,620.60	$500,000.00	$12,031.78	1.92	(2588.82)	-21.52%
$300,000.00	$16,869.92	$750,000.00	$18,047.66	2.50	1177.74	6.53%

Addendum B – Comparative Taxation Levels



Addendum – FAQ

Won't renters be negatively affected?

Renters currently pay municipal taxes indirectly through their rent as landlords pass the cost along. We anticipate that within 3 to 7 years, market forces will cause rents to decline or slow their rate of growth to compensate for the tax savings. Additionally, landlords will be paying taxes against the income they earn rather than the assessment of their buildings and therefore will have lower costs as well. There is also a "poverty floor" built into our modeling to allow for low income individuals and families.

What about people who conceal income?

Under our current system people register vehicles out of state and take other measures to avoid property tax. No system is perfect. Fortunately, the costs of auditing and monitoring the income figures will be incurred by the state and federal governments, not by local municipalities.

What about capital gains?

Under this system capital gains will be treated as standard income and assessed tax at the mill rate in effect at the time of the sale of the asset.

Isn't this just another income tax and won't municipalities risk revenue shortfalls?

Although utilizing income assessment, this is not a traditional "income tax". Under the traditional income tax model, rates are set independently of a budget, based on projections regarding the economy, and taxes are assessed based on these rates. This may result in revenue excesses or shortfalls. The STOP (Stop Taxing Owners of Property) program assesses taxes using the traditional equation for municipal tax to set the mill rate, substituting income for property values, and then applies a "flat tax". This results in a revenue neutral effect on municipal budgets under the STOP model.

Won't eliminating property assessment mean a loss of local jobs?

Yes. The elimination of property assessment will mean a loss of some jobs. In most municipalities this will be a minuscule percentage of the municipal work force.