**Perspectives of Property Tax Incidence in California Forty Years after Proposition 13**

**Robert W. Wassmer**

*Professor, Department of Public Policy and Administration*

 *California State University, Sacramento 95819-6081*

*rwassme@csus.edu**, (916) 278-6304*

**Ronald C. Fisher**

*Professor, Department of Economics*

*Michigan State University*

*fisherr1@msu.edu**, (517) 355-0293*

**Zachary Kuloszewski**

*Undergraduate and Research Assistant*

*Michigan State University*

*DRAFT: Please do not cite.*

**October 2017**

***Abstract***

*Our research objective is to assess the understanding and perspective of California citizens about property taxation, including how the tax functions given the many legal constraints and citizen beliefs about the distributional impact of the tax. We utilize information from a series of survey questions in a December 2016 CalSpeaks Survey to better understand citizen opinion about Proposition 13 and citizen support for the property tax. Key issues include (1) do California citizens today understand the provisions of Proposition 13 and the implications for how the property tax operates in California, and (2) given that knowledge, what is the perspective of California residents about the income incidence (progressivity) of the property tax? The survey results reveal that slightly more than one third (36 percent) believe that the property tax is progressive (imposes a greater burden, i.e. a greater percentage of income, for a typical high-income person). We find strong evidence that greater knowledge of the basic elements of Proposition 13 (fixed rate and method of assessment) increases the likelihood of belief that the property is progressive.*

For presentation at the Association for Public Policy and Analysis Fall Research Conference, Chicago, November 2017; and the National Tax Association Annual Conference on Taxation, Philadelphia, November 2017. We acknowledge the help of the Institute for Social Research at California State University, Sacramento for their assistance at composing the survey questions used and compiling the survey data used.

***Introduction***

“Despite its fiscal importance, the property tax is perhaps the most confusing and least understood of local fiscal institutions.”[[1]](#footnote-1) This research is an attempt to assess the perspective of California citizens regarding property taxation given the fiscal environment set by Proposition 13 forty years earlier. Our interest is in what affects citizen beliefs about the distributional impact of property taxes. We utilize information from a series of questions offered in a December 2016 *CalSpeaks* Survey to better understand citizen opinion about Proposition 13. Because of its unique history with the property tax, and the continued salience of this issue to its citizens, California is perhaps the most interesting place to explore knowledge, attitudes, and support concerning property taxation.

 Proposition 13, adopted by referendum in 1978 with nearly two-thirds support of California voters, decreased the amount of property taxes paid on residential and business property by limiting effective rates and altering the property tax assessment process. The subsequent effect has been a decrease in the property tax revenue collected for local government services as compared to what would have been if Proposition 13 never adopted. Although discussions to revise or even rescind Proposition 13 have occurred regularly since its passage, none has gained substantial support.

 Taking a broader perspective, the question whether the property tax ultimately is a regressive or progressive tax has been the subject of substantial research by economists, tax professionals, and policy analysts but remains a controversial issue. A simple characterization of opinions on this puts academic economists on the side of declaring it a progressive tax, whereas most policymakers and the public are more likely to consider it regressive. This schism is easy to understand since the derivation of the academic conclusion relies on a theoretical model that shows a nationwide system of property taxes depresses the return on taxable property by the average rate of property taxation (Wassmer, 1993). Because higher income households get a greater percentage of their income from property earnings (capital income), this makes the property tax a progressive tax. Alternatively, policymakers and the public are more likely to base their conclusions on the income incidence of property taxation through the observation that the initial payment of property taxes – either directly through property ownership or indirectly through property rental – takes a larger percentage of the earnings of the poor than the rich. Thus, we choose to focus this research on the opinion of California citizens in 2016 on the income incidence of property taxation. Furthermore, we look for answers to:

* Do people who understand the property tax process in California more accurately tend to believe that the tax favors lower-income or higher-income taxpayers?
* Do those with higher income, or those with higher wealth (homeowners) tend to think of the property tax as relatively progressive compared to other citizens?
* Independent of tax knowledge and economic status, is an individual’s perceptions about property tax incidence tied to political views or preferences, perhaps because taxpayers rely on ideological beliefs when the specifics are unknown?

 We do this by first offering some necessary background about Proposition 13 and the changes it brought to the system of property taxation in California. Then we briefly review previous research on the income incidence of property taxation and the survey used to collect the data used here. Following this is a description of the regression analysis employed to examine beliefs regarding property tax progressivity in California. We conclude with a summary of our findings and possible policy implications.

***Characteristics of Proposition 13 and Property Taxation in California***

The fundamental elements of change that Proposition 13 brought to California’s pre-1978 traditional system of local property taxation, as commonly presented, are that the local property tax rate is one percent of the current assessed value, and the selling price at “acquisition” determines the property’s base assessed value. The details are a bit more complicated. More specifically, the base *ad valorem* property tax rate cannot exceed one percent (or a “millage rate” of 10) of assessed value. Later amendments to Proposition 13’s original language allow this this one percent to increase through additional levies for voter-approved debt service if approved by two-thirds of the jurisdiction's voters.[[2]](#footnote-2) Even so, the overriding perception is that Proposition 13 limited the statutory property tax rate to one percent of assessed value. Although the debt service allowance does permit a small degree of geographical variation of *ad valorem* property tax in California.[[3]](#footnote-3)

 Regarding the determination of the assessed value of a property for tax purposes after Proposition 13, the amendment set the base assessed value of all property equal to its estimated market value (based on traditional assessing techniques) in March 1975. Importantly, Proposition 13 limits the subsequent annual growth in a home’s assessed value to the lesser of two percent of its previous assessed value or the rate of inflation. The exception is when a property changes ownership or is modified through new construction. When sold, a property is reassessed at its current market value (“acquisition value”) that then establishes a new base year. Newly constructed portions of a property are also subject to acquisition value assessment, while the non-modified portion of the property retains its assessed value based on an earlier base value and subsequent allowed annual increase. As a result, neighboring identical properties often have different assessed values for property tax purposes and thus have vastly different effective tax rates (taxes paid/market value).[[4]](#footnote-4)

 The Lincoln Institute’s annual publication *Significant Features of the Property Tax* summarizes the effect of Proposition 13 on California’s property tax as follows: “Although local governments lost control over their most important revenue source, California voters benefit from the certainty of knowing that the tax on their property is one percent of the purchase price, plus a maximum of two percent increase per year.” We chose to use this baseline perception to craft the knowledge of property tax questions used in our survey analysis.

 Because of the effects of Proposition 13, California’s reliance on and level of property taxation is relatively low. The overall effective property tax rate in California is 35th among the states at 0.81 percent of a property’s market value, according to the Lincoln Institute’s *Significant Features of the Property Tax* report for 2013. Similarly, California ranks 23rd in per capita property tax and 29th in property tax as a percentage of personal income despite having very high average property values. In terms of revenue reliance, California ranks 31st in property tax as a percentage of total state-local revenue.

 In recent years, many of California’s local governments (school districts, cities, and counties) have faced increased funding demand for what many residents and voters believe is an inadequate provision of local services, including K-12 public education, deteriorating infrastructure (roads and bridges), affordable housing, insufficient public transit (bus and rail), underfunded pension obligations, and so on. The “go to” way to raise local government revenue – illustrated for example by the 2016 ballot initiative in Sacramento County to raise the county sales tax rate by a half cent on a dollar of taxable sales – has been a greater rate of local sales taxation. These local additions, on top of California’s statewide sales tax rate of 7 cents on a dollar, have pushed California to the 10th highest average rate for state and local sales taxation in the nation at 8.48 percent.

 With relatively elevated levels of sales taxation and the opposite for the property tax, some have argued it is time for the state’s local governments to reconsider the property tax as a funding source. Of course, such a change is possible only if most of California’s citizens agree. A voter’s perception of the income incidence of the property tax – that is will an increase hit the poor harder than the rich – is very likely to influence support for such a change.

***Income Incidence of the Property Tax***

The question of the distribution of property tax burdens – whether the tax is regressive, proportional, or progressive – has long been under debate, both in terms of public finance research and popular or political perceptions.[[5]](#footnote-5) Historically there has been a widespread perception, particularly among policymakers and taxpayers, that property taxes impose relatively higher burdens on lower income individuals; i.e. that the property tax is “regressive.” More generally, a common perception seems to be that property taxes impose relatively greater burdens on “average” or typical individuals than do alternative taxes, such as income taxes and even sales taxes. Such perceptions likely influence the relative dislike of the property tax. Groups opposed to property taxation, such as California’s Jarvis Gann Taxpayer’s Association, see it in their interest to further promote this view.

However, the current prevailing view among most public finance specialists is that as one of the few substantial taxes on wealth and capital, property taxes impose substantial burdens on capital owners. Consequently, property taxes may be a more progressive element in the state-local tax structure than commonly believed, and certainly more so than sales or excise taxes in most instances. In addition, if jurisdictions with above-average property tax rates tend to be above-average income jurisdictions as well, then even greater is the tendency for the property tax to impose higher tax burdens on higher-income taxpayers.

This perspective has been prominent in the economic analysis of taxation since the early 1970s, with Mieskowski’s (1972) pioneering analytical paper about property tax incidence. Gaffney (1971, p. 408) previewed some of those analytical results when he wrote: “To own property is to be rich, in the measure that one owns, and to tax the quality of richness should not be presumed to burden the poor more than the rich”. Furthermore, empirical studies have estimated the overall distributional effect of property taxes.[[6]](#footnote-6) The analyses differ in the assumptions made about incidence, the year and source of data, and the basis (household, family, individual; annual income or income over some longer period) to which tax burden is compared. If one assumes that tax burdens fall on owners of capital and compare tax burden to current annual income, the tax distribution is U-shaped with respect to income – regressive for the bottom 30 to 40 percent of households, with a progressive pattern at the top of the income distribution (top 5 to 10 percent). With the same incidence assumption, but comparing tax burden to some measure of permanent or lifetime income, the overall tax burden is essentially proportional. On the other hand, if one assumes that property tax burdens fall on consumers (homeowners, renters, consumers of other goods) and compare to current annual income, then tax burdens are regressive for the bottom 20 to 40 percent of taxpayers and proportional for the remainder.

 Overall then, the empirical evidence suggests that the distribution of property tax burden is roughly proportional for middle-income taxpayers, but progressive or proportional for the highest-income taxpayers (the top 5 to 10 percent). The theoretical analysis suggests that property tax burdens are much more likely to be progressive than regressive. Certainly, public finance research shows that property taxes are more progressive than sales taxes. Thus, faced with a choice of whether property taxes on balance create a greater burden on low-income or high-income taxpayers, the economic research implies a greater relative burden on higher-income taxpayers, i.e. property taxes are progressive.[[7]](#footnote-7)

***CalSpeaks* Survey**

We obtained the survey data used in this through an award offered by the Institute for Social Research at California State University, Sacramento that granted us 15 questions on their *CalSpeaks* survey for December 2016.[[8]](#footnote-8) In addition to our questions, we used regularly collected information on some social, economic, political, and geographic characteristics of the participants. Relevant to the issue of property tax knowledge, we chose to ask survey participants their opinions regarding the following questions:

* *What is the annual percentage rate that property is taxed in all of California?*
* *Do property tax rates applied to a property’s value (to determine the amount owed, annually) vary by where someone lives in California?*
* *Which of the following determines the amount of property tax that a California homeowner pays?*

 Table 1 offers details from these property tax knowledge questions in the form of raw responses from the survey’s 930 participants. The *CalSpeaks* surveyalso calculated weights for each respondent based upon population benchmarks for the entire state’s population that allow STATA to produce means and confidence intervals that better represent all of California. The responses imply that many California residents have an incomplete understanding of the property tax process in California under Proposition 13. First, only about 20 percent of Californians believe that property tax rates do not vary geographically, although setting a one percent rate is fundamental to Proposition 13. As noted earlier, complicating this matter is the fact that voters can approve higher rates for local government debt service, although these tend to be relatively small in most cases. Even among those who believe that the rate does not vary geographically, only about 59 percent (with a 90 percent confidence interval from 49 to 69 percent) accurately set that rate at one percent of taxable value.

 On the other hand, a majority does seem to understand the basics of the assessment process. About 61 percent (56 to 65 percent confidence interval) of Californians believe that “the purchase price of the home and the number of years owned” determines taxable value and ultimately the amount of property tax liability. This is consistent with the provisions of Prop 13 limiting annual increases in taxable value but with full assessment upon sale. However, a substantial number (40 percent of the unweighted survey participants) believe, contrary to this limitation, that taxable value and tax amount are based on “The current price at which the owner could sell the home,”, i.e. market value.

We also asked survey participants about their perceptions whether the property tax is progressive (a relatively higher tax for higher income taxpayers) or regressive (a relatively lower tax for higher income taxpayers). The actual survey question was:

 *Do you believe that property taxes in California effectively impose a greater burden (greater percentage of income) for a typical low-income person or a typical high-income person?*

The results, reported in Table 1, show that 31 percent of the survey responses supported the position that the property tax is progressive, with 69 percent selecting regressive. Applying the survey weights to make the results representative of California’s population implies that 36 percent of Californians believe that the property tax is progressive (with a 90 percent confidence interval of 31.3 to 40.9 percent). The conclusion is that a strong majority of California voters believe that the property tax is a regressive revenue source.

***Regression Analysis of Beliefs Regarding Property Tax Progressivity***

As described above, our key research question involves finding the opinion of California residents regarding the income incidence of the property tax, and then exploring what may be influencing the formation of this opinion. We must point out that this approach is substantially different than most previous surveys regarding public finance opinions that generally focused on soliciting responses based on personal circumstances. For example, if asked whether you are “in favor of increasing property taxes by X percent”, the expectation is that the individual responds after estimating the amount of the tax change based on the “X percent” and comparing this cost to the anticipated benefit they expect to derive from the expected use of the revenue. This is different than what is asked here, where individuals must contemplate the effect of the tax on a “typical” low or high-income individual. The survey asks about one’s perception of the overall impact of the tax change, rather than the personal impact.

 How should one think about modeling responses to such a question? Relying on past studies of incidence perception, there would seem to be three possible ways people might approach this question. First, is the “property tax knowledge” approach; that is, what do the “facts” say. To employ this approach, individuals might rely upon their knowledge of tax policy and respond honestly based upon an understanding of how it applies to the question asked. A second possibility is that individuals might respond based on “personal experience”. A taxpayer may not know the overall distribution of tax burden, but might infer or impute such an answer regarding that distribution based on the individual’s case. For example, a person might reason that because I have a relatively high income and pay what I perceive as a substantial property tax amount, the tax must fall mainly on higher-income taxpayers, i.e. the tax is progressive.[[9]](#footnote-9) One way to think of this approach is that individuals answer strategically; based on personal circumstances; what will minimize my tax. A third approach is that people might rely on standard beliefs, including “political position”, if they are uninformed about the facts or unsure of the personal circumstance. A possible example of this might arise if both the leaders of Democratic and Republican political parties find it desirable to label the property tax as hurting the poor more than the rich, albeit for distinct reasons. Democrats might take this position as a tool to advocate for greater progressive income taxes instead of property taxes. Republicans perhaps know the tax is progressive, but seek to limit this incidence on its more affluent members by taking the position that property taxes are regressive, and thus appealing to equity arguments.

 The empirical approach we follow is to allow for all three possibilities in the determination of whether one answers chooses “greater burden on high-income person” as their response to the incidence question asked. If this is the case, the dependent variable “Property Tax Progressivity Perception” receives a value of one. If “greater burden on low-income person” chosen, it receives a value of zero. Understanding this, we estimate the following regression model:

 Property Tax Progressive =

 (Property Tax Knowledge, Political Ideology, Personal Experience) (1).

 Prior research provides background and support for this approach. Citrin (1979) analyzed survey data that included California voters' positions concerning Proposition 13. He argued (p. 127) that his findings "…confirm that the main intention of California voters in passing Proposition 13 was to cut taxes rather than eliminate a wide range of government services" because in the survey a majority typically preferred the status quo level of taxes and spending, despite the approval of the proposition. Apparently, voters believed that a reduction of their taxes was possible without affecting government services, or that localities would use alternative revenues to their advantage. Based on Citrin’s analysis, it appears that survey respondents evaluated Prop 13 based on their personal circumstances.

 In perhaps the work most like what is offered here, Slemrod (2006) found that misconceptions about tax incidence were important in explaining public support for a flat-rate income tax and the general sales tax. Specifically, many individuals believed that high-income individuals would pay more with a sales tax or a flat-rate income tax than they do with the current progressive federal income tax, contrary to the findings of public finance research. Slemrod suggested that one explanation for his findings might be that media reports of anecdotes concerning tax payments, as well as personal experience, influence attitudes about tax progressivity. Thus knowledge – both accurate and inaccurate – influenced perceptions about relative tax progressivity. Fisher (1985) found that one’s political party, region, and race (rather than individual economic circumstance) explained responses to survey questions about support for different forms of simultaneous increases in taxes and public expenditures. If a survey question is too general or too imprecise to make individual calculations possible, then respondents might turn to general beliefs or political positions for answers.

 We use the answers to the three questions regarding the provisions of Proposition 13, as reported in Table 1, to proxy for Property Tax Knowledge as one component of independent variables in the logistic regression. A dichotomous variable corresponding to each question is set equal to one if the answer is correct (accurate). With three questions representing distinct aspects of the components of property tax changes in Proposition 13, we also combined the responses to all three questions to create a tax knowledge index. That index is essentially the percentage of responses that are accurate, so the tax knowledge index variable has four possible values (100, 66.67, 33.33, and 0). The raw mean (standard deviation) of this variable, calculated from survey responses, is 29.4 (29.2). The weighted mean, meant to represent all Californians and not just those who responded, is 32.2 with a 90 percent confidence interval that ranges from 29.0 to 35.4. We present separate regressions with each one of the different property tax knowledge variables.

 The measurement of survey respondent’s Political Ideology occurs through a range of very progressive, progressive, moderate, conservative, and very conservative. As required in the regression analysis, very conservative is left out and thus serves as a base of comparison.

 We account for Personal Experience, as an influence on opinion of the progressivity of the property tax, by two different sets of socioeconomic characteristics as independent variables. The first includes zero/one variables for gender, age groups, and ethnicity. The second set includes the variables of the first set plus zero/one variables for categories of educational attainment and income. Thus,

 Personal Experience (Set A) =

f (Male, Age 26-34, Age 35-49, Age 50-64, Age65+, Latino, African American, Other)

 Personal Experience (Set B) =

 f (Set A, Bachelor’s Degree or Greater, Household Income $150k+, Own Home)

 Tables 2 and 3 contain the regression results that are consistent across both the Group “A” and “B” regression formulations.[[10]](#footnote-10) Key results are:

* people who understand better the California property tax process under Proposition 13 are more likely to believe that the property tax is progressive;
* higher-income people (income greater than $150,000) are more likely to believe that the property tax is progressive (relative to lower-income people);
* people who express a political ideology at the center (moderate) and to the far left (very progressive) are less likely than those with a very conservative ideology to believe that the property tax is progressive;
* African-Americans (relative to Whites) are less likely to believe that the property tax is progressive (compared to other ethnic groups);
* senior citizens (age 65+) are less likely to believe that the property tax is progressive (compared to other age groups).[[11]](#footnote-11)

 Importantly for a key research question posed here, we find clear evidence that a better understanding of California’s property tax process after Proposition 13 is more likely to lead to (or at least correlated with) a view that the property tax is progressive. The statistically significant relationship between accurate answers to questions about property taxes after Prop 13 and believing that the property tax is progressive persists across all of the property tax process questions and thus, not surprisingly, also for the overall index accuracy score. The relationship also is robust for various combinations of independent variables representing taxpayer characteristics.

 The result that very high-income individuals (income of at least $150,000) perceive property taxes as progressive, that is creating a relatively greater burden on higher-income taxpayers, seems likely to result from personal experience. High-income homeowners likely see their own property tax liability as substantial, and from that impute that property taxes burden other high-income taxpayers similarly.

 A similar personal experience factor may underlie the result that taxpayers over the age of 65 tend to perceive property taxes as regressive, imposing a relatively greater burden on lower-income taxpayers. A concern about the impact of property taxes on retired senior citizens has been important in leading to property tax credits (“circuit breakers”) that reduce the share of income required for property taxes. Homeowners who are retired with reduced income may continue with substantial property tax liability. This personal experience may lead senior taxpayers to believe that property taxes impose disproportionate burdens on lower-income taxpayers.

 The result that African-Americans are more likely than other ethnic groups to believe that property taxes are regressive seems not to have a clear explanation. The most reasonable explanation may be that typical family income is lowest for African-Americans compared to other ethnic groups, and property taxes are related to property value rather than income. Indeed, the odds ratios for low-income respondents also are less than 1, although not statistically significant. Therefore, lower-income taxpayers may be imputing from their own property tax liability that the tax disproportionately falls on them. Of course, many lower-income taxpayers are renters for whom property taxes are “hidden,” an issue that deserves further attention.

 It is also interesting and a bit confounding that there is no clear or significant relationship among education levels and perceptions of property tax progressivity in these results. This may be the result of correlations between income and education, although based just on the coefficients (and not significance) it appears that the lowest-income residents believe the tax is regressive, whereas the lowest education level (high school only) tends to believe that the tax is progressive relatively. This seems to deserve further examination.

 One important concern about the model, both theoretically and econometrically, is the possibility that a survey participant’s accuracy in answering the tax knowledge questions we posed may also be determined by the socio-economic characteristics included in the regressions in Tables 2 and 3. In regression terminology, the measures of property tax knowledge used here may be “endogenous” and thus regression coefficients calculated for them “inconsistent” – meaning that as the sample size used to estimate it grows larger, the regression coefficient calculated may not converge to its “true” value.

 We can only test this premise by switching to a Probit regression analysis because unlike Logit, it allows for the necessary correction for a continuous endogenous explanatory variable. Because our only continuous property tax knowledge variable is the index created out of three dichotomous measures of this knowledge, this is what we used. Furthermore, this accounting for endogeneity requires the identification of an instrumental variable expected to influence the endogenous variable, but not the dependent variable under consideration. Given the use of survey data, we are limited in what we can choose for this, but believe that *a priori*, whether a survey respondent uses only a cell phone (and not land line) offers a reasonable choice. Those who use a cell phone exclusively are likely to be more prone to weigh the benefits and costs of a communication choice, and thus have the resources and/or knowledge to do so (even over and both what the other socio-economic variables included in the regression would indicate. This should translate into a cause of knowing more about the intricacies of property taxation in California after Proposition 13, and not so much into the “feeling” as to whether it hurts the rich more than the poor. We ran the above-described instrumental variable Probit model in order to produce a Wald test of the exogenous null hypothesis that the index of property tax knowledge can be considered exogenous. The result is that such a null hypothesis could not be rejected with greater than 90 percent confidence.

 In addition, both the magnitude and significance of the relationship between accurate understanding of Prop 13 and belief that property taxes are progressive remain and the influence of other independent variables does not change for various formulations of the regressions. Comparing the results in Tables 2 and 3, the results remain essentially the same when education and income are added to the regressions in addition to age. For the results in both Tables 2 and 3), the results for other measures remain the same when the tax knowledge measures are excluded (as compared to included). As shown in Table 4, the relationship between tax knowledge and views of property tax progressivity remain with or without inclusion of the political ideology measures. Thus we are confident in our assumption that is reasonable to consider the property tax knowledge measures exogenous and our belief that the overall results are quite robust and believable.

***Conclusions and Implications***

The fundamental findings from this survey research are as follows. *Do California citizens today understand the provisions of Proposition 13 and how the property tax operates in California?* A large fraction of Californians believe that property tax rates vary geographically, although setting a one percent rate limit is fundamental to Proposition 13. Even among those who believe that the rate is fixed, only about 60 percent accurately set that rate at one percent of taxable value. However, a majority does seem to understand the basics of the assessment process, including that property tax liability depends on time owning a property because of reassessment upon sale.

 *What is the perspective of California residents about the incidence or progressivity of the property tax?* The evidence suggests with some certainty that between 30 and 40 percent of Californians believe that property taxes are progressive. Those who believe that property taxes impose a relatively greater burden for high-income taxpayers tend to be people who understand the provisions of Proposition 13 and people with very high income (approximately the top 10 percent of the income distribution). On the other hand, African-Americans, people above age 65, and people who express a political ideology at the center (moderate) and to the far left (very progressive) tend to believe that the property tax imposes a relatively greater burden on low-income taxpayers.

 Such results are important for at least two reasons. First, this is another example, similar to that reported by Slemrod (2006), of a situation where the majority public perception is different than the majority opinion of public finance professionals. Second, if public policy decisions are made based on voter preferences and those voters have inaccurate perceptions of the distribution of tax burdens, then the resulting public policy decisions may not achieve the intended objective. If the majority of California voters believes (incorrectly) that property taxes impose disproportionate burdens on low-income taxpayers, this may affect choices regarding both public services and alternative revenue options in ways that voters do not intend. For example, Fisher, Bristle, and Prasad (2010) discuss a number of state government proposals to eliminate or substantially reduce property taxes. Changing the distribution of property tax burdens was often identified as one objective of such proposals. If voters believe that property taxes are regressive, then elimination in favor a tax thought to be more equitable might be supported, even if the alternative tax was not more progressive.

 These results also provide guidance and direction for additional research, which we are pursuing. One expectation is that perceptions about property tax progressivity will affect taxpayers’ preferences for relying on property taxes relative to other revenue sources, especially sales taxes. The same *CalSpeaks* survey includes information about preferences for various revenue options to address either inadequate service spending or revenue shortfalls. We are exploring how perceptions of tax progressivity affect preferences for alternative revenue sources. In short, is this one important reason why California has continued to limit property taxes in favor of increasing sales taxes?

 In addition to academic interest in assessing property taxation, this analysis may guide policy makers in how to improve local public finance. It has long been suggested that property taxes are the least well-understood tax because of the complexity of the property tax process, and this lack of understanding contributes to the well-established relative dislike of property taxes compared to other taxes. It is not surprising that forty years after Proposition 13 was adopted, current taxpayers are not familiar with the details that were debated extensively at the time. This suggests that government and public officials, in addition to the academic community, should seek and use methods to better explain how the property tax functions.

 Our research results suggest two particular directions for public education about the property tax. First, providing basic knowledge about the property tax process to everyone – rates and assessment limits – makes it more likely that taxpayers also have an accurate perception of the incidence of the property tax. Accurate understanding may make it less likely that voters rely on general political positions for fiscal policy decisions.

 Second, two groups of citizens – seniors over the age of 65 and African-Americans – seem most likely to have inaccurate perceptions of the property tax incidence (possibly affecting views about how best to finance government services). This does not seem surprising, as homeownership may be relatively lower among African-Americans compared to other groups (because of income differences), and senior citizens may be focused on financial aspects of health care and retirement rather than taxes. Therefore, such groups might appreciate direct or targeted attention when fiscal policy choices are up for a public vote or being considered by representative political bodies.

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**Table 1: Property Tax Variables from *CalSpeaks* Survey**

(December 2016, 930 Observations)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Question** | **Possible Responses** | **Survey Percentage Choices** | **Weighted (to represent all CA) Correct Percentage Choice** | **90% Confidence Interval** |
| Property Tax Knowledge |  |  |  |  |
| *(1) Do property tax rates applied to a property’s value (to determine the amount owed annually) vary by where someone lives in CA?* | YesNo (**Correct Prop Tax Vary**) | 80.09%19.91% | 20.60% | 17.2 to 24.9% |
| *(2) What is the annual percentage rate that property is taxed in all of CA? (Among those that believe rate is constant.)*  | ½ percent1 percent (**Correct Prop Tax Rate**)3 percent5 percent | 11.33%57.14%20.69%10.84% | 59.20% | 49.2% to 69.2% |
| *(3) Which of the following determines the amount of property tax that a CA homeowner pays?* | Purchase price of home and number years owned (**Correct** **Assessment**)Current price at which owner could sell homeNumber of people living in home | 56.02%40.58%3.41% | 60.69% | 56.2% to 65.4% |
| Property Tax Incidence |  |  |  |  |
| *(4) Do you believe that property taxes in CA effectively impose a greater burden (greater percentage of income paid) for a typical low-income person or a typical high-income person?* | Greater burden on low-income personGreater burden on high-income person | 68.96%31.04% | 63.9%36.1% | 31.3% to 40.9% |

**Table 2: Logistic Regression Results for Property Tax Progressive Dependent Variable, Group “A” Explanatory Variables, and Various Measures of Property Tax Knowledge**

(Weighted Survey Values Used)

 **Measure of Property Tax Knowledge**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Explanatory Variable** | None | Correct Prop Tax Rate | Correct Prop Tax Vary | Correct Assessment | Index |
|  |  |  |  |  |  |
| Property Tax Knowledge | - | 3.396 (239.6%)\*\*\* | 2.295 (129.5%)\*\*\* | 1.505 (50.5%)\* | 1.016 (1.6%)\*\*\* |
| Male | 0.832 | 0.863 | 0.836 | 0.799 | 0.807 |
| Age 65+ | 0.609 (-39.1)\*~ | 0.602 | 0.593 (-40.7%)\* | 0.604 (-39.6)\* | 0.588 (-41.2%)\* |
| Latino^ | 0.852 | 0.897 | 0.950 | 0.865 | 0.950 |
| African American | 0.254 (-74.6%)\*\* | 0.258 (-74.2%)\*\*\* | 0.284 (-71.6)\* | 0.271 (-72.9)\* | 0.297 (-70.3%)\*\* |
| Other Race/Ethnicity | 1.471 | 1.633 | 1.527 | 1.443 | 1.534 |
| Very Progressive Ideology | 0.410 (-59.0%)\* | 0.444 | 0.458 | 0.388 (-61.2)\* | 0.421 |
| Progressive Ideology | 0.768 | 0.776 | 0.794 | 0.720 | 0.725 |
| Moderate Ideology | 0.442 (-55.8)\* | 0.452 (-54.8%)\* | 0.442 (-55.8%)\* | 0.431 (-56.9%)\* | 0.431 (-56.9%)\* |
| Conservative Ideology^^ | 0.834 | 0.777 | 0.912 | 0.835 | 0.853 |
| Constant | 1.161 | 0.906 | 0.894 | 0.947 | 0.682 |
|  |  |  |  |  |  |
| **Observations** | 929 | 929 | 929 | 929 | 929 |
| **F Statistic** | 2.42\*\*\* | 3.40\*\*\* | 2.94\*\*\* | 2.61\*\*\* | 3.59\*\*\* |

Excluded categories: ^White and ^^Very Conservative Ideology.

Statistical Significance (in two-tailed test for regression coefficients): \*\*\*>99%, \*\*95-99%, and 90-95%.

~Results in each cell include the calculated odds ratio and in parenthesis the percentage change in the likelihood of considering the property tax progressive from a one unit change in respective explanatory variable = (1-Odds Ratio)\*100.

**Table 3: Logistic Regression Results for Property Tax Progressive Dependent Variable, Group “B” Explanatory Variables, and Various Measures of Property Tax Knowledge**

(Weighted Survey Values Used)

 **Measure of Property Tax Knowledge**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Explanatory Variable** | None | Correct Prop Tax Rate | Correct Prop Tax Vary | Correct Assessment | Index |
|  |  |  |  |  |  |
| Property Tax Knowledge | - | 3.364 (236.4%)\*\*\* | 2.182 (118.2%)\*\*\* | 1.325 | 1.014 (1.4%)\*\*\* |
| Male | 0.812 | 0.854 | 0.827 | 0.790 | 0.798 |
| Age 65+ | 0.671~ | 0.664 | 0.652 | 0.667 | 0.648 |
| Latino^ | 1.059 | 1.094 | 1.149 | 1.059 | 1.126 |
| African American | 0.268 (-73.2%)\*\* | 0.272 (-72.8%)\*\* | 0.294 (-70.6)\* | 0.277 (-72.3)\* | 0.302 (-69.8%)\*\* |
| Other Race/Ethnicity | 1.291 | 1.437  | 1.316 | 1.284 | 1.347 |
| Very Progressive Ideology | 0.342 (-65.8%)\* | 0.371(-62.9%)\*\* | 0.380 (-62.0%)\*\* | 0.328 (-67.2)\*\* | 0.349 (-65.1%)\*\* |
| Progressive Ideology | 0.703 | 0.707 | 0.728 | 0.672 | 0.662 |
| Moderate Ideology | 0.433 (-56.7)\* | 0.446 (-55.4%)\* | 0.438 (-56.2%)\* | 0.423 (-57.7%)\*\* | 0.422 (-57.8%)\*\* |
| Conservative Ideology^^ | 0.863 | 0.794 | 0.948 | 0.856 | 0.867 |
| Bachelor’s Degree or Greater | 0.824 | 0.819 | 0.870 | 0.809 | 0.827 |
| Household Income $150K+ | 3.446 (244.6%)\*\*\* | 3.336 (233.6%) | 3.281 (228.1%)\*\*\* | 3.310 (231.0%)\*\*\* | 3.083 (208.3%)\*\*\* |
| Own Home | 0.988 | 0.980 | 0.943 | 0.978 | 0.942 |
| Constant | 0.980 | 0.781 | 0.767 | 0.883 | 0.647 |
|  |  |  |  |  |  |
| **Observations** | 928 | 928 | 928 | 928 | 928 |
| **F Statistic** | 3.23\*\*\* | 3.35\*\*\* | 3.31\*\*\* | 3.18\*\*\* | 3.38\*\*\* |

Excluded categories: ^White and ^^Very Conservative Ideology.

Statistical Significance (in two-tailed test for regression coefficients): \*\*\*>99%, \*\*95-99%, and 90-95%.

~Results in each cell include the calculated odds ratio and in parenthesis the percentage change in the likelihood of considering the property tax progressive from a one unit change in respective explanatory variable = (1-Odds Ratio)\*100.

**Table 4: Logistic Regression Results for Property Tax Progressive Dependent Variable, Effect of Political Ideology**

(Weighted Survey Values Used)

**Measure of Property Tax Knowledge**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Explanatory Variable** | Index | Index | Index | Index |
|  |  |  |  |  |
| Property Tax Knowledge | 1.016 (1.6%)\*\*\* | 1.015(1.5%)\*\*\* | 1.014 (1.4%)\*\*\* | 1.015(1.5%)\*\*\* |
| Male | 0.807 | 0.866 | 0.798 | 0.866 |
| Age 65+ | 0.588 (-41.2%)\* | 0.614(-38.6%)\* | 0.648 | 0.614(-38.6%)\* |
| Latino^ | 0.950 | 0.832 | 1.126 | 0.989 |
| African American | 0.297 (-70.3%)\*\* | 0.274((-72.6%)\*\* | 0.302 (-69.8%)\*\* | 0.252(-74.8%)\*\* |
| Other Race/Ethnicity | 1.534 | 1.469 | 1.347 | 1.230 |
| Very Progressive Ideology | 0.421 | - | 0.349 (-65.1%)\*\* | - |
| Progressive Ideology | 0.725 | - | 0.662 | - |
| Moderate Ideology | 0.431 (-56.9%)\* | - | 0.422 (-57.8%)\*\* | - |
| Conservative Ideology^^ | 0.853 | - | 0.867 | - |
| Bachelor’s Degree or Greater | - | - | 0.827 | 1.187 |
| Household Income $150K+ | - | - | 3.083 (208.3%)\*\*\* | 2.573\*\*\* |
| Own Home | - | - | 0.942 | 0.989 |
| Constant | 0.682 | 0.407 | 0.647 | 0.311 |
|  |  |  |  |  |
| **Observations** | 929 | 930 | 928 | 929 |
| **F Statistic** | 3.59\*\*\* | 4.54\*\*\* | 3.38\*\*\* | 3.61\*\*\* |

 Excluded categories: ^White and ^^Very Conservative Ideology.

 Statistical Significance (in two-tailed test for regression coefficients): \*\*\*>99%, \*\*95-99%, and 90-95%.

 ~Results in each cell include the calculated odds ratio and in parenthesis the percentage change in the likelihood of considering the property tax progressive from a one unit change in respective explanatory variable = (1-Odds Ratio)\*100.

1. Fisher, 2016, p. 300 [↑](#footnote-ref-1)
2. For debt service on school facilities, the vote requirement is 55 percent. For a general summary of Proposition 13 see Wassmer (2011). [↑](#footnote-ref-2)
3. For further details, see the California’s Legislative Analyst Office’s publication on *Understand California’s Property Taxes*, (<http://www.lao.ca.gov/reports/2012/tax/property-tax-primer-112912.aspx>). According to an analysis by the San Francisco Chronicle (<http://homeguides.sfgate.com/average-property-tax-rates-california-51758.html>), the rate of property taxation on the assessed value of a home in California falls within the range of 1.1 percent to 1.6 percent of assessed value, with an average of about 1.25 percent. [↑](#footnote-ref-3)
4. Ferreira (2010) uses the Integrated Public Use Microdata Series from 1990 to estimate the effective rates of California homeowners based upon tenure at residence. For those who moved into the dwelling in the previous year the average was 0.8 percent. For those who moved prior to 1980, the effective tax rate was nearly half. The translated difference in property tax payments in 1990 dollars for the average California household is about three percent of gross annual household income. For the San Francisco Bay Area, with higher house value, this rose to 4.5 percent. [↑](#footnote-ref-4)
5. See Zodrow, 2006. [↑](#footnote-ref-5)
6. See Fisher, 2016, Table 14.3. [↑](#footnote-ref-6)
7. Youngman (2016, 3-4) describes the issue as follows: “Political commentators often describe the property tax as regressive, but most economists would disagree. An economic analysis of the tax burden looks beyond the legal or statutory incidence, which only identifies the person who receives the tax bill. … Because overall capital ownership rises with income levels, this introduces elements of progressivity.” [↑](#footnote-ref-7)
8. Details on the survey methodology employed are at <http://www.csus.edu/isr/calspeaks/methods%20and%20technical%20details.html>. [↑](#footnote-ref-8)
9. Alternatively, a low-income individual who is a homeowner might reason that because the property tax is based on home value rather than income, the tax falls disproportionately on low-come taxpayers, i.e. regressive. [↑](#footnote-ref-9)
10. For clarity, the regression results reported do not include all of the age, education, and income categories of independent variables. We ran regressions with all categories included, but report only those that are significant and consistent. Including all of the categories does not change the results. [↑](#footnote-ref-10)
11. Although not noted in Tables 2 and 3, many of the coefficients on the “age 65+” variable are statistically significant at an 85 percent confidence level. [↑](#footnote-ref-11)