

318 2nd Ave. N • Mount Vernon, IA 52314

www.iowapolicyproject.org

FOR RELEASE 1:15 P.M. CST, THURSDAY, APRIL 1, 2004 - NOTE EMBARGO
CONTACT: Mike Owen (319) 643-3628 or ipp@lcom.net

Property Tax Changes Faulted in Study Legislators' Haste Cited in 'Unworkable' Law

IOWA CITY, Iowa (April 1, 2004) – A new property tax law on the books in Iowa is unworkable and based on faulty assumptions, according to a new report from a University of Iowa professor.

“If fully implemented, this legislation would make Iowa’s property tax system more complex, more unfair, and ultimately unworkable,” said Thomas Pogue, a UI professor of economics who authored the report for the Iowa Policy Project, a nonpartisan research group based in Mount Vernon.

“It is unfair because it freezes the taxable values of properties until they are sold, which means that taxes on newly constructed homes and businesses will often be higher than taxes on comparable, but older structures,” Pogue said.

“It is unworkable because it taxes land separately from structures, but does not spell out how land is to be taxed.”

The new law, which passed in 2003 but has yet to be implemented, changes the way most classes of property are valued and taxed, and includes the elimination of the the rollback of assessed values. It would freeze the taxable values of existing structures – such as homes, business or farm buildings – at their January 2005 assessed values as determined under current law, unless the properties are sold or modified to increase their square footage.

To take effect, the Legislature would have to reaffirm the legislation by June 30, 2005. Pogue said the legislation “would create serious funding problems for school districts, counties and cities.”

Pogue’s report notes underlying problems with the law, including that its incentives to maintain property create other inequities, and the assumption that it stops so-called “automatic” property-tax increases. It also presents new problems of not treating equally situated taxpayers the same, increasing taxes on newcomers’ homes compared to long-time residents’ homes of equal value.

“It prevents taxable values from increasing because of inflation, even though inflation increases local governments’ costs,” Pogue said. “It is complex because it shifts the property tax further from a tax on market values – which reflect wealth and ability to pay – toward a tax on other characteristics of the property.”

Those characteristics include when the property last sold, and when and how it had been modified.

-- more --

“Changes of this magnitude need to be nonpartisan. You need more than a couple of people in a back room coming up with ideas to make this kind of policy,” said David Osterberg, executive director of the IPP. “Professor Pogue’s study finds problems that could easily have been avoided with study by legislators, or by independent analysts, before the passage of the bill.”

“This is what happens when the Legislature rushes to pass something without fully investigating the potential effects,” Osterberg added.

Key conclusions of Pogue’s report:

- While there would be fewer disincentives to maintain or improve property – because of frozen assessments – this only would be true with improvements that only add value, not space. For example, a couple adding a hot tub pays no more tax, but a couple adding a bedroom of equal value would pay a higher tax because of the added space.

- Owners would have an incentive to stay in existing structures rather than to buy or build new ones.

- Growth of local property-tax bases would be slower, thus encouraging downward pressure on public services.

- Eliminating rollbacks “immediately and dramatically” would increase the share of taxes paid by residential property.

- Taxes on newcomers’ homes would increase relative to taxes on long-time residents’ homes of equal market value.

- Compared to the existing system, the legislation favors established, higher income neighborhoods over both new neighborhoods and lower income neighborhoods in decline.

- The legislation is based partly on the assumption that inflation in taxable values causes “automatic” tax increases. In fact, there are no “automatic” tax increases currently; tax rates are set by local officials.

The Iowa Policy Project is a non-profit, non-partisan research organization based in Mount Vernon. The IPP engages scholars at Iowa’s public and private colleges and universities to perform research on issues of importance to the citizens of Iowa. IPP reports are available to the public, free of charge, on the web at www.iowapolicyproject.org <<http://www.iowapolicyproject.org/>> .

-- 30 --

For interviews with Thomas Pogue, David Osterberg or IPP Research Director Peter Fisher, call Mike Owen at 319/643-3628.