From: Maybank, Burnet R. III <BMaybank@nexsenpruet.com>
To: Maybank, Burnet R. IIIBMaybank@nexsenpruet.com
Date: 10/17/2013 12:02:57 PM
Subject: ED & SALT LSs: Property tax burden falls very heavy on commercial/industrial in SC

The Minnesota Taxpayers Association and the Lincoln Institute of Land Policy compared property tax treatment of homesteads (residential property) with that of commercial property in representative cities in each state for Fiscal Year 2010 (see Table 1). They found that commercial property faces higher tax rates than residential property in 39 states. Tax collections were equal in 9 states (Connecticut, New Hampshire, New Jersey, North Carolina, Oregon, Washington, and Wyoming), while residential property was actually taxed at a higher rate in four states (Delaware, Maryland, Nevada, and Virginia). Overall, the average commercial property paid a tax 1.724 times what a homestead paid.

In SC the average commercial/industrial property paid a tax 3.02 times what a homestead paid- which was 46th in the nation.

Table 2 shows the share of property taxes collected from commercial/industrial vs. residential. The ratio in SC was 74/26%. By my quick count SC is tied with 2 other states as 5th in the nation

The Minnesota Taxpayers Association Report makes for difficult reading; I chaired the SC Tax Realignment Committee (TRAC) and our report summarized the key points from that study

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State and Local Property Taxes Target Commercial and Industrial Property

EMAIL

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By

Joseph Henchman

Fiscal Fact No. 342: State and Local Property Taxes Target Commercial and Industrial Property

In Fiscal Year 2010, state and local governments collected $441.6 billion in property taxes, comprising 23.5 percent of state and local own-source revenue.[1] The tax exists in all fifty states, and while the property tax has strengths (it is familiar, stable, visible, easy to administer, allows local control, and is somewhat connected to government services received), it remains a politically unpopular tax.[2] In 2009, 55 percent of poll respondents characterized the property tax as "not fair" or "not at all fair"; only 5 percent called it "very fair."[3] Efforts to restrain property taxes are the most successful of tax limitation efforts.

Why is the property tax so disliked? One cynical answer is that the tax's visibility and high level of collections by themselves make it reviled.[4] Others point to frequent complaints about administration, such as assessments at odds with market values or tax amounts being unpredictable year-to-year. Political responses to property tax outrage include homestead exemptions, separate property classifications, economic development abatements, circuit breakers, and deferrals.

One result of this outrage has been differing tax rates based on use, often by raising taxes on commercial and industrial property while reducing taxes on residential property. The Minnesota Taxpayers Association and the Lincoln Institute of Land Policy compared property tax treatment of homesteads (residential property) with that of commercial property in representative cities in each state for Fiscal Year 2010 (see Table 1). They found that commercial property faces higher tax rates than residential property in 39 states.[5] Tax collections were equal in 9 states (Connecticut, New Hampshire, New Jersey, North Carolina, Oregon, Washington, and Wyoming), while residential property was actually taxed at a higher rate in four states (Delaware, Maryland, Nevada, and Virginia).[6] Overall, the average commercial property paid a tax 1.724 times what a homestead paid.

Table 1: Commercial Property Disproportionately Taxed In Most States
Ratio of Commercial Property Effective Tax Rate Divided By Homestead Property Effective Tax Rate, FY 2010

State	Representative City	Ratio	Treatment	Rank

Alabama	Birmingham	2.11	Favors Homesteads	37
Alaska	Anchorage	1.07	Favors Homesteads	16
Arizona	Phoenix	2.64	Favors Homesteads	44
Arkansas	Little Rock	1.27	Favors Homesteads	24
California	Los Angeles	1.02	Favors Homesteads	12
Colorado	Denver	3.55	Favors Homesteads	47
Connecticut	Bridgeport	1.00	Equal Treatment	1
Delaware	Wilmington	0.85	Favors Commercial	18
Florida	Jacksonville	1.43	Favors Homesteads	29
Georgia	Atlanta	1.36	Favors Homesteads	27
Hawaii	Honolulu	3.73	Favors Homesteads	49
Idaho	Boise	1.92	Favors Homesteads	35
Illinois	Chicago	1.72	Favors Homesteads	32
Indiana	Indianapolis	2.91	Favors Homesteads	45
Iowa	Des Moines	2.25	Favors Homesteads	40
Kansas	Wichita	2.32	Favors Homesteads	41
Kentucky	Louisville	1.02	Favors Homesteads	11
Louisiana	New Orleans	2.61	Favors Homesteads	42
Maine	Portland	1.05	Favors Homesteads	14
Maryland	Baltimore	0.99	Favors Commercial	8
Massachusetts	Boston	3.55	Favors Homesteads	48
Michigan	Detroit	1.26	Favors Homesteads	23
Minnesota	Minneapolis	2.62	Favors Homesteads	43
Mississippi	Jackson	1.78	Favors Homesteads	33
Missouri	Kansas City	2.03	Favors Homesteads	36
Montana	Billings	1.39	Favors Homesteads	28
Nebraska	Omaha	1.01	Favors Homesteads	10
Nevada	Las Vegas	0.99	Favors Commercial	8
New Hampshire	Manchester	1.00	Equal Treatment	1
New Jersey	Newark	1.00	Equal Treatment	1

New Mexico	Albuquerque	1.19	Favors Homesteads	19
New York	New York City	6.02	Favors Homesteads	50
North Carolina	Charlotte	1.00	Equal Treatment	1
North Dakota	Fargo	1.10	Favors Homesteads	17
Ohio	Columbus	1.29	Favors Homesteads	25
Oklahoma	Oklahoma City	1.06	Favors Homesteads	15
Oregon	Portland	1.00	Equal Treatment	1
Pennsylvania	Philadelphia	1.56	Favors Homesteads	30
Rhode Island	Providence	2.18	Favors Homesteads	38
South Carolina	Columbia	3.02	Favors Homesteads	46
South Dakota	Sioux Falls	1.31	Favors Homesteads	26
Tennessee	Memphis	1.60	Favors Homesteads	31
Texas	Houston	1.22	Favors Homesteads	22
Utah	Salt Lake City	1.83	Favors Homesteads	34
Vermont	Burlington	1.19	Favors Homesteads	20
Virginia	Virginia Beach	0.81	Favors Commercial	21
Washington	Seattle	1.00	Equal Treatment	1
West Virginia	Charleston	2.22	Favors Homesteads	39
Wisconsin	Milwaukee	1.03	Favors Homesteads	13
Wyoming	Cheyenne	1.00	Equal Treatment	1
District of Columbia	Washington	2.45	Favors Homesteads	(42)
United States average		*1.72*	*N/A*	*N/A*

Note: Ranking based on neutrality of treatment of different types of property. Perfectly neutral states rank 1 and states most favoring one property type over another rank 50. D.C. ranking given for informational purposes and does not affect other rankings.
Source: Minnesota Taxpayers Association & Lincoln Institute of Land Policy.

This trend is starkly evident when looking at total tax collections. Nationwide, state and local governments collected 44 percent of property tax revenue from residential property and 56 percent from non-residential property (mostly commercial and industrial). By contrast, the U.S. Census Bureau routinely found that residential property totaled over 60 percent of assessed valuation, with commercial and industrial less than 25 percent.[7] Commercial and industrial property is paying more than its fair share, for the most part.

Table 2, below, shows the share of property taxes paid on commercial and industrial property in each state. The disparities have a number of causes. In the District of Columbia, for instance, commercial and industrial property pays much higher tax rates than residential property, and residential property can take advantage of homestead deductions. In New Jersey, tax rates are equal but there is much more residential property than commercial and industrial property. In Mississippi, commercial property has a greater dollar value than residential property but is also disproportionately taxed.

Table 2: Share of Property Taxes Collected from Commercial/Industrial vs. Residential, FY 2010

State	Commercial & Industrial	Residential & Other
Alabama	70%	30%
Alaska	61%	39%
Arizona	68%	32%
Arkansas	52%	48%
California	56%	44%
Colorado	56%	44%
Connecticut	26%	74%
Delaware	45%	55%
Florida	74%	26%
Georgia	60%	40%
Hawaii	72%	28%
Idaho	61%	39%
Illinois	55%	45%
Indiana	71%	29%
Iowa	67%	33%
Kansas	69%	31%
Kentucky	67%	33%
Louisiana	74%	26%
Maine	72%	28%
Maryland	27%	73%
Massachusetts	49%	51%
Michigan	53%	47%
Minnesota	51%	49%
Mississippi	83%	17%
Missouri	61%	39%
Montana	63%	37%
Nebraska	63%	37%

Nevada	60%	40%
New Hampshire	37%	63%
New Jersey	39%	61%
New Mexico	62%	38%
New York	53%	47%
North Carolina	46%	54%
North Dakota	87%	13%
Ohio	54%	46%
Oklahoma	67%	33%
Oregon	47%	53%
Pennsylvania	56%	44%
Rhode Island	50%	50%
South Carolina	74%	26%
South Dakota	65%	35%
Tennessee	60%	40%
Texas	65%	35%
Utah	70%	30%
Vermont	66%	34%
Virginia	56%	44%
Washington	49%	51%
West Virginia	80%	20%
Wisconsin	47%	53%
Wyoming	81%	19%
District of Columbia	91%	9%
TOTAL, United States	**56%**	**44%**
Source: U.S. Census Bureau, *State & Local Government Finances;* Council on State Taxation, *Total State and Local Business Taxes*		

Residential homeowners are a large majority of the electorate, so it is easy to understand why political officials seek to reduce their taxes while raising taxes on commercial and industrial property owners. However, unless there is a net reduction in tax revenues, the actual effect of this will be to shift the tax burden so that it is less transparent. Because commercial and industrial property owners pass at least some of the costs of doing business on to consumers through higher prices, to workers through lower wages, and to shareholders through lower profits, these shifts may be doing greater damage to long-term economic growth. Shifting a greater property tax burden onto commercial and industrial property could also result in residential property owners not paying the full cost of the public services they are demanding.

Abraham Lincoln once cautioned, "Let not him who is houseless pull down the house of another." By heavily taxing commercial and industrial property to benefit residential property, state and local governments are doing precisely that. A better approach would be property tax systems that tax all property alike.

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[1] *See* U.S. Census Bureau, *State and Local Government Finances FY 2010*. Own-source revenue excludes intergovernmental funds (federal transfers to state governments and state transfers to local governments).

[2] *See, e.g.*, David Brunori, Local Tax Policy: A Federalist Perspective 46-54 (2007).

[3] *See* Matt Moon, *How Do Americans Feel About Taxes Today? Tax Foundation's 2009 Survey of U.S. Attitudes on Taxes, Government Spending, and Wealth Distribution*, Tax Foundation Special Report No. 166 (2009), http://taxfoundation.org/article/how-do-americans-feel-about-taxes-today-tax-foundations-2009-survey-us-attitudes-taxes-government.

[4] *See, e.g.*, Brunori, *supra* note 2 at 56-57.

[5] *See* Minnesota Taxpayers Association & Lincoln Institute of Land Policy, *50-State Property Tax Comparison Study* (2011) at 14, http://www.lincolninst.edu/subcenters/significant-features-property-tax/upload/sources/ContentPages/documents/MTAdoc_NewCover.pdf.

[6] *See id.*

[7] The U.S. Census Bureau last reported this data in 1987. *See, e.g.*, U.S. Census Bureau, *1987 Census of Governments: Taxable Property Values* at 9 (1989), http://www2.census.gov/govs/pubs/cog/1987/1987_vol2_taxpropvalues.pdf.

Burnet R. Maybank, III
Nexsen Pruet, LLC
1230 Main Street, Suite 700 (29201)
P.O. Drawer 2426
Columbia, SC 29202
T: 803.540.2048, F: 803.253.8277
Cell: 803.960.3024
bmaybank@nexsenpruet.com
www.nexsenpruet.com