The Case and Avenues for Property Tax Reform in North Carolina

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Background

- North Carolina has enacted substantial tax reform over the past decade, but property taxes remain an issue
- Valuations have increased in recent years, as NC has become a destination for businesses and individuals
- Localities have used increased assessments to support increased revenues
- Many states are considering property tax reform, and some are considering elimination

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Why Property Taxes Matter – And Why Economists Like Them

- A well-structured property tax is less distortionary than other taxes
- Local services directly increase property values — your home value is a better proxy for benefits received than income or spending
- Transparent and more amenable to democratic opposition if they get too high

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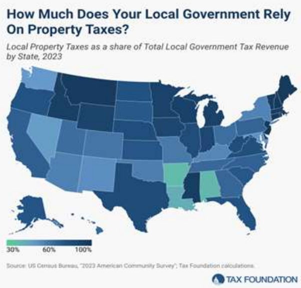
Essential Part of Local Government



Nationwide, property taxes account for over 70 percent of local government revenue (over 30 percent of state and local tax [SALT] revenue)

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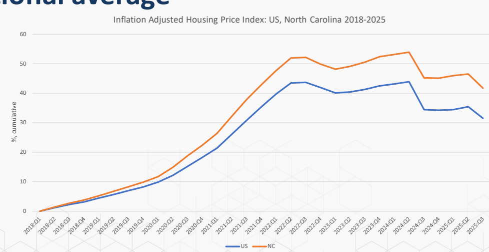
NC home values have growth faster than national average



US Federal Housing Administration, FHFA House Price Index, Calculations by Tax Foundation

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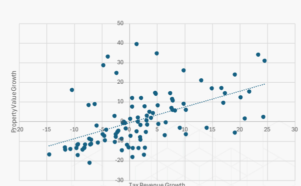
No 1:1 relationship between home value and property tax increases



R^2=.52

NC DOR data, Calculations by Tax Foundation

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What Data Show about NC property taxes

- For FY 2018-FY 2023, real property values rose, on average, 12.26 percent, and property tax revenues increased by 5.27 percent
- Implication: local governments offset more than half of the valuation increase with lower rates
- High property tax bills seen in some jurisdictions appear to be a local government choice rather than an inevitability

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What Data Show about NC property taxes

- In 64 of NC's 100 counties, growth in property tax revenues exceeded growth in real estate values
- But, of the five counties with the highest property value growth, only three showed an increase in inflation-adjusted tax revenues over the period
- Fastest growing county—Mecklenburg—showed an inflation-adjusted decrease in total property taxes

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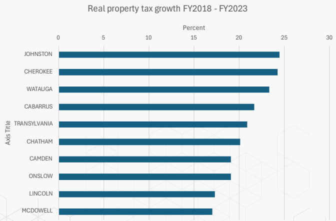
Top 10 counties for property tax revenue growth



NC DOR data, Calculations by Tax Foundation

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Why is Reform Needed?

- There is wide divergence in property tax growth between counties
- Goal should be to provide relief to the most impacted residents, while not hampering more efficient local governments
- Reform should comport with the principles of sound tax policy: simplicity, transparency, neutrality, and stability

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Various Avenues for Property Tax Reform

- **Assessment limits**: Cap annual increases in *assessed value* (e.g., 3–5%)
- **Targeted relief programs**: Homestead exemptions, circuit breakers (taxes capped as % of income), deferrals for seniors/disabled
- **Rate caps or reductions**: Limit allowable tax *rates*
- **Truth-in-taxation**: Require public notices/hearings for increases
- **Levy limits**: Cap total revenue growth from existing properties (adjustments can be made for inflation and/or optional growth factor)

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Assessment Limits – Pros and Cons

- Pros: MAY directly limit individual bill increases for current owners
- Cons:
  - Creates a lock-in effect: discourages home sales, major home improvements, or new construction
  - Creates inequities and market distortions
  - Governments may raise rates to offset

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Targeted Relief Programs – Pros and Cons

- Examples in NC: Homestead exclusions (e.g., $25,000+ or 50% of value for elderly/disabled), circuit breakers (taxes limited to % of income)
- Pros: Provides direct help to vulnerable groups (low-income, seniors)
- Cons:
  - Piecemeal and doesn't address overall tax/spending growth
  - Limited scope—doesn't protect all homeowners
  - Can create a burden shift to non-qualifying taxpayers

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Truth in Taxation Laws

- Mechanism to provide homeowners more information about what their property tax bill means (and what any ballot measure might entail)
- Taxpayers should see what their bill could have been if a levy limit were in place or strengthened
- Often combined with Public Comment
- Utah was the first to adopt a Truth in Taxation law and later added levy limits; Utah also has a strong culture of participation
- By itself, does not have any teeth. NE data show that tax revenues grew faster after introduction

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Sample Truth in Taxation Notice

Truth in Taxation Hearing
Notice of Tax Increase

In compliance with section 42-17107, Arizona Revised Statutes, Maricopa County is notifying its property taxpayers of Maricopa County's intention to raise its primary property taxes over last year's level. Maricopa County is proposing an increase in primary property taxes of $12,233,134 or 1.81%.

For example, the proposed tax increase will cause Maricopa County's primary property taxes on a $100,000 home to be $115.91. Without the proposed tax increase, the total taxes that would be owed on a $100,000 home would have been $113.85.

This proposed increase is exclusive of increased primary property taxes received from new construction. The increase is also exclusive of any changes that may occur from property tax levies for voter approved bonded indebtedness or budget and tax overrides.

All interested citizens are invited to attend the public hearing on the tax increase that is scheduled to be held June 23, 2025 at 9:30 a.m. at the Board of Supervisors' Conference Room, 301 W. Jefferson, 10th floor, Phoenix, AZ.

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What Are Levy Limits?

- Cap annual growth in total property tax revenue from *existing* properties
- Typically adjusted for inflation and/or population
- If property values rise faster → tax rates automatically decrease to stay under the cap
- New construction/development excluded, to account for population growth –adds revenue (encourages growth)
- Overrides possible
- Focuses on controlling total government revenue, not individual assessments

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Why Levy Limits Are the Best Approach

- Directly constrains total tax burden
- Maintains uniform, market-based assessments (no distortions or inequities)
- Avoids problems of assessment limits (no penalties for sales/improvements/new buyers)
- Provides broad, neutral protection against unlegislated increases resulting from valuation surges
- Superior to targeted relief (addresses root cause of revenue growth)
- Still allows revenue flexibility to local governments if they can convince constituents of the need for increased revenue
- May consider pairing a strong levy limit with a narrowly-tailored circuit breaker

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Examples from Other States

- Washington: Levy cap limits revenue growth despite skyrocketing values → protects taxpayers while allowing new growth
- New York: 2% annual levy cap (or inflation, whichever lower) → slowed tax increases
- Benefits seen: Slower per-capita tax growth, better alignment with economic realities
- NC could adopt a similar model

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Implementation in NC

- Statutory cap on levy growth set to inflation
- Apply to existing properties; exclude new construction
- Include truth-in-taxation for transparency (public notices/hearings)
- Allow overrides via voter approval or for emergencies
- Aligns with ongoing House committee work (balancing taxpayer relief and local services)
- Avoids unrealistic and inefficient ideas like full repeal (property taxes are stable/efficient)

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Sample Revenue Formula

- **Maximum Levy**$_{t+1}$**= Prior Year Levy**$_t$ × **(1 + Inflation Rate**$_t$**)**
- Where:
- **Prior Year Levy**$_t$ = The total property tax levy collected (or the maximum allowable levy) in the previous year (Year t)
- **Inflation Rate**$_t$ = The measured inflation rate for the relevant period (e.g., the percentage change in the Consumer Price Index (CPI))
- **Levy rate** = $\dfrac{\text{Maximum Levyt}_{+1}}{\text{Assessments – New Construction}} \times 100\%$

Apply rate to old and new property that did not exist last year

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Example calculation using formula

- Prior Year Levy = $1,000,000
- Inflation= 2 percent
- Allowable levy = (1.02)*$1,000,000=$1,020,000
- Current year assessments= $20,000,000
- New construction= $5,000,000
- Max levy rate = 1,020,000/(20,000,000-5,000,000) = 6.8%
- Apply this rate to entire assessment: 6.8% * $20,000,000 = $1,360,000 to get maximum revenue collectable. Excess takes care of population growth

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Conclusion and Recommendation

- North Carolina faces rising property tax burdens outpacing income in some counties
- Various reforms exist, but levy limits stand out as the most comprehensive and least distortive
- Add-in Truth in Taxation for maximum transparency, inform taxpayers, and to avoid surprises
- Recommendation: Prioritize well constructed levy limits in 2026 for sustainable, broad-based relief

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