Assessment Regressivity and the Homestead Exemption

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- e.g., Amornsiripanitch, 2021; Berry, 2021; Avenancio-León & Howard, 2022

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Although important and potentially consequential, *this is not the whole story*: property tax relief has the potential to exacerbate/alleviate assessment disparities.

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<u>Central question</u>: what size homestead exemption is necessary to offset property assessment regressivity?

<u>Approach</u>: use detailed panel data from Cook County, IL, as well as a nationwide, cross-sectional dataset for over 9k municipalities (CoreLogic) to estimate regressivity-neutralizing homestead exemption amounts.
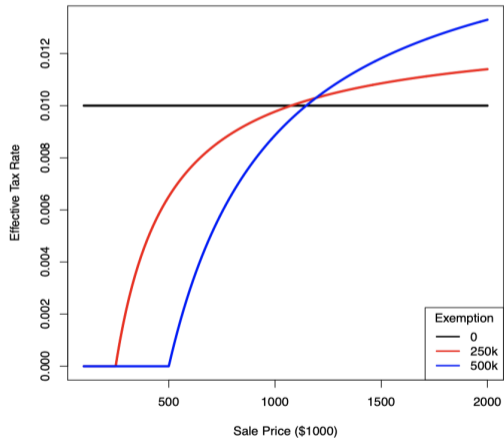
Figure 1: Using Simulated Data

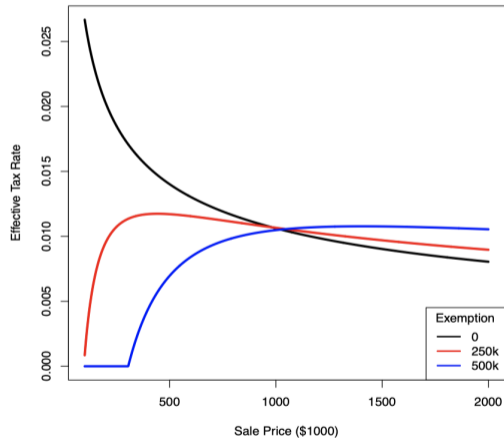Panel A: Log Assessed Values and Assessment Ratios
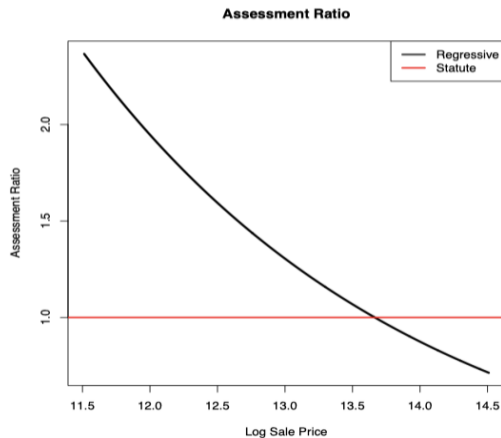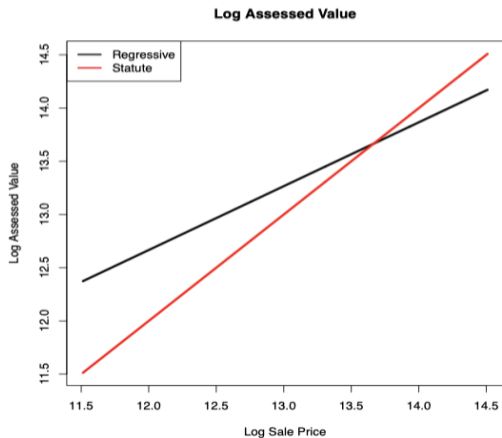
Panel B: Effective Tax Rate

- Over 92% of the 9k municipalities have somewhat regressive assessment practices.

- Suits index illustrates how varying the size of the homestead exemption shifts the burden of property taxation.

- The median homestead exemption required to eliminate regressivity: $24,639.
  - Interquartile range: $10,270 - $47,512

Figure 3: Homestead Exemption and Effective Tax Rate with Suits=0

A lot to like
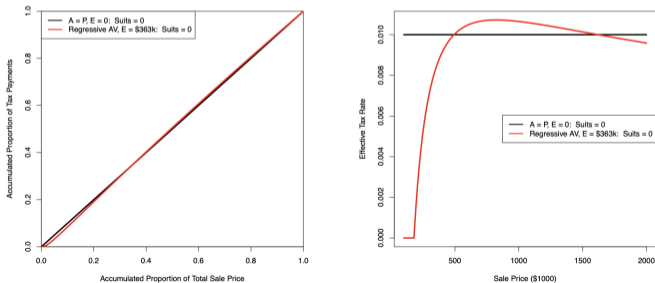
A clear, concise paper that does a great job of explaining the "back story" before diving into the estimation.

- Important topic that deserves more attention (my bias!)

- Two great datasets are better than one

- Difficult to get more policy relevant than this

- Great figures

▶ What are possible responses to increasing the size of homestead exemptions (general equilibrium speculation)?
  ▶ Talking to folks at the Dept. of Revenue, it seems like they would simply attempt to raise rates to hit their revenue goals.

▶ How does changing the homestead exemption affect the property tax burden *within* a state? The optimal exemption amount may be influenced by outliers.
  ▶ On the surface it might appear that we've "fixed" the problem, but jurisdictions with egregious assessment would generate fiscal externalities on their neighbors.

This is a moving target: how to future-proof the policy?

- ▶ Timely adjustments to the homestead exemption in response to macroeconomic factors seem unlikely, not to mention the political infeasibility of reducing its value.

- ▶ Index the amount to housing price appreciation?

Related, but another paper: how should we think about dynamic, or intertemporal incidence?
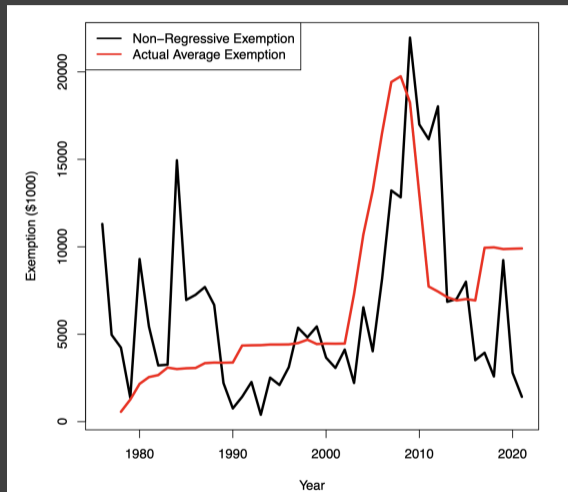
- ▶ The estimated exemption amounts would look great on a (heat) map. Give us a sense for the variation across the country.

- ▶ What percent of jurisdictions already achieve this goal?

- ▶ The difference in recommended exemption amounts between method 1 and method 2 is large ($21k vs $82k). Perhaps choose one approach for the main discussion and explain the other in a footnote/appendix to avoid confusion.

- Complicating factors that could enhance or attenuate the findings:
  - Assessment growth caps?
  - Less than 100% take-up of the homestead exemption?

- What work has been done on the "alternative general homestead exemption"? It seems like this is an interesting policy that complement with work on assessment growth caps.

- Pattern of decreasing effective rates at the very top, even with the homestead exemption. How concerned should we be? Solutions?

- Setting $b = 0.6$ makes sense for the graphs, but what is a more reasonable b that would still produce the same patterns?

- Same comment applies to the choices for exemption amounts in the simulation (250k, 500k).

- Figure 1 needs better labels, and other colors would avoid confusion when moving from Panel A to Panel B.

- Consider using some sort of dashed line combinations for Figure 2.

- I would have liked to have a little more discussion of how recessions can increase regressivity, but perhaps this should be (is?) the focus on another paper.

Thank you for the opportunity to read such an interesting, well-executed paper!

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