

What is the Cost of Property Tax Exemptions? A Case Study in New Hampshire

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A great deal of wrangling has been taking place in state legislatures over the property tax and its continued role in the financing of government. With evermore pressure at the local level for providing services while stretching the dollar, it becomes a real balancing act for legislatures during budget time to maintain what is in place, let alone fund a new initiative. To meet all these needs and demands, there is a single source of revenue that can be relied upon—the property tax.

The ad valorem system is inherently sound, fair, and consistent with the social philosophy out of which these United States have emerged. Over time no other source of fiscal revenue has outranked it. The early philosophers who originated the ideas of capitalism and the free market agreed that the very purpose of government, its essence, was to protect and preserve life, liberty, and property. (See, for example, the Natural Rights clause and the Protection and Taxation Reciprocal clause of the New Hampshire Constitution, shown in the sidebar to this article.) The only variable in that foundation is property. All citizens have life and all should have liberty, both to the fullest degree; however, property ownership varies widely.

What therefore is more proper and fitting than that the share of money each citizen is asked to contribute to government be proportionate to the share of property that government is expected to preserve and protect? The property tax is, far and away, the major source of state and local government revenue in the United States.

The property tax is the only major tax revenue source levied in every state in the United States and in every Canadian province. ... [T]he property tax remains the single most significant source of state and local tax revenue. ... [F]or own-source tax revenue for local governments, the proportion raised from property tax appears to have stabilized at about 72 percent since 1977. (Almy, Dornfest, and Kenyon 2008, 89)

In New Hampshire, the property tax provides more than seven times as much money to meet social needs as the next best fiscal revenue source: the state meals and rooms tax (U.S. Census Bureau, 2001–02).

New Hampshire

Real property, or “estates,” were the source of revenue in New Hampshire in colonial times and this continued after the War for Independence with the adoption of the new Constitution in 1784. The first state tax was collected as a levy upon towns in proportion to their own local inventories of property.

A constitutional amendment adopted in 1902 allowed for the taxation of inheritances (see the Valuation and Taxation clause of the New Hampshire Constitution, shown in the sidebar).

The enactment by the General Court (the state legislature in New Hampshire) of such a tax three years later marked the beginning of a state tax structure independent of the towns.

In 1923 major changes were made in the way money was treated as *property*. It was no longer listed on local inventories, partly because citizens were less and less willing to admit their ownership of stocks and bonds. Municipal assessors had no effective way to discover such *property*. The state took over the task and imposed, instead, a tax on interest and dividends. The separation continued with the establishment of a meals and rooms tax in 1967.

Then in 1970 personal property was exempted from the local tax in a far-reaching reform. Removed from the local rolls the following year were stock-in-trade, farm livestock and poultry, fuel pumps, and mills and machinery. In its place, the state imposed a direct tax on business profits, part of which was promised to towns and cities to make up for the revenue lost from personal property taxes. A 1942 constitutional amendments exempted standing wood and timber from the property tax base (see the Power to Make Laws clause of the New Hampshire Constitution, shown in the sidebar), and a 1968 amendment allowed the assessment of unimproved land at values indicated by the *current use* (see the Power to Provide for Tax Valuations clause of the New Hampshire constitution, shown in the sidebar). These amendments have meant further changes in the tax system, which had to be incorporated into the evolving structure throughout this period of dramatic reform.

This trend of exempting certain types and classes of property has continued in subsequent years. Many of the requests came at the urging of large special interest groups, while others arose out of a fear of loss of ownership if nothing was done. What has been the result? Today, New Hampshire has a wide variety of exemptions or property tax breaks, as shown in table 1.

This is not to say that any of these programs, credits, reductions, or exemptions are not good and worthy of public consideration. However, there are two major factors that must be taken into consideration. One big hurdle complicating matters is that many of these programs are local options, meaning each community can pick and choose the benefits it offers its respective residents.

Although it sounds good on the surface, a deeper look into this option reveals a darker underside. How so? Think about it. Communities are pitted against each other because Community A offers something that Community B does not or offers it a lower level. Now the pressure is on Community B to follow the lead of Community A or else it is considered anti-elderly or anti-veteran or anti-disabled or anti-environmental

Table 1. Exemptions and property tax breaks in New Hampshire and year of enactment

Full Tax Breaks	Partially Taxed
Radio Towers, Antennas and Related Structures (1994)	Utility Poles (1998)
Water and Air Pollution Control Devices (1971)	Timber (1949) and Gravel (1997)
Veterans (1871) and Veteran Organizations (1957)	Current Use (1968)
Elderly (1996); Deaf (2003); Blind (1935); Disabled (1993)	Non-profit Housing Projects (1987)
Solar (1975); Wood (1979) and Wind Power (1977)	Renewable Generation Facilities (2006)
Schools, Charities and Religious Facilities (1913)	Discretionary Easements (1996)
Discretionary Preservation Easements (2002)	Conservation Restrictions (1990)
Community Revitalization Tax Relief Incentive (2006)	Granges (1983)
Residence in Commercial/Industrial Zone (1977)	Private Aviation Facilities (1963)
Personal Property (1970)	Railroads (1844)
Ski Machinery & Equipment (1981)	Insane (1842)

or whatever. As a result, although local option seems to be a good idea, it simply doesn't work as intended. Rather, if the state legislature wants to initiate a program, it needs to find the funding to support it and not pass the costs on to the local community.

Cost of Exemptions

The other factor is the cost of these programs to the other (i.e., non-exempted) residents of the community and the state. In other words, how much more are the property owners of New Hampshire paying to support all these exemption programs?

My research started and ended with data from the New Hampshire Department of Revenue Administration, that is, the state MS-1 (Summary Inventory of Valuation) Reports, where I found most but not all of what I needed. The difficulty in this type of analysis is that it can never be complete or fully comprehensive because of the data that are, or perhaps are not, reported to the state annually. Of the exemptions listed in table 1, only a small portion are actually reported to the state in any detailed form. Most go unreported simply because they are coded at the municipal level as tax-exempt and are not tracked for any other purpose. Therefore, despite my best efforts to produce a complete statewide picture of what each New Hampshire property owner is contributing to cover the void, it is only a partial one at best.

For example, the following are some of the programs that go unreported to the state or any other agency:

- Radio towers, antennas, and related structures
- Veterans and veteran organizations
- Religious and charitable facilities
- Residence in commercial or industrial zone
- Ski machinery and equipment
- Non-profit housing projects
- Renewable generation facilities
- Granges
- Timber
- Gravel
- Private aviation facilities and railroads.

These are all local records that are simply not tracked. Other programs report only the reduced value and not the full

and true market value:

- Discretionary easements
- Discretionary preservation easements
- Community revitalization tax relief incentives
- Utility poles
- Current use and conservation restrictions.

Thus, it is difficult to obtain a clear and complete picture of the full and true cost of the programs because of the lack of *openness* and *transparency*.

Nevertheless, table 2 shows what I was able to discover about lost taxes through examination of the state reports for 2007, the most recent available. The most recent Department of Revenue MS-1 summary that tabulated parcel counts is 2005; that summary reported a total of 552,857 parcels (528,526 taxable and 22,627 nontaxable) in the entire state. A quick calculation indicates that each taxable parcel in the state contributed approximately \$108 ($\$57,218,748 \div 528,526$) toward the support of those reported programs in 2007, not a bad deal considering what these programs accomplish. This overall figure, however, does not encompass all programs the state has implemented.

A Local Perspective

To obtain a picture of the *full* costs, I needed to consider and bring into the

Table 2. Exemption programs and the attendant value and taxes lost

Exemption Program	Value Lost	Taxes Lost
Blind	\$38,437,158	\$692,949
Deaf	\$348,400	\$6,953
Disabled	\$129,036,726	\$2,230,512
Elderly	\$1,211,061,245	\$21,724,306
Educational	\$4,859,300	\$88,467
Additional School	\$90,640,550	\$1,582,259
Pollution Control	\$260,329,615	\$3,632,152
Solar Energy	\$1,899,332	\$35,534
Wind Energy	0	0
Wood Energy	\$239,625	\$4,157
Certain Disabled Veterans	\$17,641,569	\$316,973
Improvements to Disabled	\$2,179,037	\$40,261
Total of Reported Exemption Programs	\$1,756,672,557	\$30,354,523
Veterans' Credits		\$26,864,225
Total Taxes Lost from all MS-1 reported programs		\$57,218,748

equation those components not tracked or tabulated in any way, that is, the nontaxable properties. How does inclusion of these properties affect the total cost? To gain such a perspective, I looked to my local jurisdiction, the City of Lebanon, as an example, though perhaps it may not be typical of every community in New Hampshire. My summary of the 2007 Lebanon records is shown in table 3.

Table 3. City of Lebanon Nontaxable Properties

Net valuation with utilities after exemptions	\$1,689,584,706
Charitable, religious, educational properties (non-taxed)	\$263,981,200
Certain disabled veterans	\$687,500
Blind	\$147,000
Elderly	\$13,761,400
Current use reductions	\$22,739,590
Veterans' tax credits	\$72,200
2007 tax rate	\$22.45

I started by updating net valuation and then added the nontaxed properties, certain disabled veterans, blind, elderly, and current use reductions back in to arrive at a total taxable value of \$1,990,901,396 with utilities. Next, I calculated a new tax rate based upon these updated figures. In doing so I had to take into account any PILOTs (payment in lieu of taxation) that would be lost as a result of now taxing these properties and to adjust for the veterans' tax credits by removing them. With these few adjustments, I calculated a new 2007 mil rate of \$19.57 (0.01957). (Note that shared revenues were left unchanged with the exception of removing PILOT funds, and it is uncertain whether any other changes to shared revenues would be needed in recalculating the tax rate. The revised figure of \$19.57 has not been confirmed with the Department of Revenue.)

With the average single-family home in Lebanon assessed at about \$245,000 for 2007, I arrived at a total program cost of \$706 (difference between \$22.45 and \$19.57) that the typical Lebanon household is paying to support all these programs that the New Hampshire General Court has authorized or mandated. This is not an insignificant amount by any stretch of the imagination in these days

of economic difficulty and uncertainty.

Though this exercise paints a more detailed picture of the cost of exemptions to property owners in Lebanon, it still does not reveal the full and true cost of all programs. It does not consider the full value of *all* value-reducing programs such as discretionary easements, residents in commercial or industrial zones, telephone poles and similar programs, but rather focuses primarily on the value exemption pieces. When these other value-reducing programs are factored in, the cost to each property owner further increases.

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Open Government Needed

There is a great deal of discussion these days in state capitals across the country about the need for *openness* and *transparency* in government, so the public is fully aware of the business of government and its impact on them on a regular basis. These catchwords are used repeatedly in the discussions at committee meetings of state legislatures. Yet, when a fiscal note is attached to many of the bills coming before these committees, noting that there are costs to the people of the state should the bill be passed, they are often overlooked, ignored, or given little

weight. As a result, the public is left with the impression of fiscal irresponsibility because those making the decisions seem to move forward regardless of the financial cost to property owners. Perhaps the time has come for a program of educating elected public officials about considering on the effects of tax policy before implementation, but that is for the politicians to decide.

In the end there is but a single pot of property to collect taxes from, and for many local governments in the United States, it is the only means of raising revenue. As state legislatures continue to erode that base by exempting pieces of it over time, there simply won't be anything left in the pot to tax—it will have been all exempted away in some form.

So what do we do? How do we fix it? The simplest solution would be to restore the pot to its full potential by eliminating all tax breaks. The property tax structure is not based upon a person's ability to pay; rather, it is based upon the value of the property the government is expected to preserve and protect.

Another, more palatable, option would be for a state legislature, if it wants to continue to give away property tax monies, to step up to the plate and find a means of replacing and replenishing the lost local revenue. An offset is necessary so that the remaining property owners are not the ones that are continually footing the bill for everyone else.

References

- Almy, R., Dornfest, A., and Kenyon, D. 2008. *Fundamentals of tax policy*. Kansas City, MO: International Association of Assessing Officers.
- U.S. Census Bureau, Governments Division, "Table 1. State and Local Government Finances by Level of Government and by State: 2001-02," http://www.census.gov/govs/estimate/0230nhsl_1.html (accessed March 10, 2009).

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Excerpts from the New Hampshire Constitution and Amendments

New Hampshire Constitution Bill of Rights Part 1 [Art.] 2. [Natural Rights] June 2, 1784

All men have certain natural, essential, and inherent rights - among which are, the enjoying and defending life and liberty; acquiring, possessing, and protecting, property; and, in a word, of seeking and obtaining happiness. Equality of rights under the law shall not be denied or abridged by this state on account of race, creed, color, sex or national origin.

New Hampshire Constitution Bill of Rights Part 1 [Art.] 12. [Protection and Taxation Reciprocal] June 2, 1784

Every member of the community has a right to be protected by it, in the enjoyment of his life, liberty, and property; he is therefore bound to contribute his share in the expense of such protection, and to yield his personal service when necessary. But no part of a man's property shall be taken from him, or applied to public uses, without his own consent, or that of the representative body of the people. Nor are the inhabitants of this state controllable by any other laws than those to which they, or their representative body, have given their consent.

New Hampshire Constitution Part 2 [Art.] 6. [Valuation and Taxation]

The public charges of government, or any part thereof, may be raised by taxation upon polls, estates, and other classes of property, including franchises and property when passing by will or inheritance; and there shall be a valuation of the estates within the state taken anew once in every five years, at least,

and as much oftener as the general court shall order.

Amended 1903 to permit taxes on other classes of property including franchises and property passing by inheritances.

New Hampshire Constitution Part 2 [Art.] 5. [Power to Make Laws, Elect Officers, Define Their Powers and Duties, Impose Fines and Assess Taxes; Prohibited from Authorizing Towns to Aid Certain Corporations] June 2, 1784

And farther, full power and authority are hereby given and granted to the said general court, from time to time, to make, ordain, and establish, all manner of wholesome and reasonable orders, laws, statutes, ordinances, directions, and instructions, either with penalties, or without, so as the same be not repugnant or contrary to this constitution, as they may judge for the benefit and welfare of this state, and for the governing and ordering thereof, and of the subjects of the same, for the necessary support and defense of the government thereof, and to name and settle biennially, or provide by fixed laws for the naming and settling, all civil officers within this state, such officers excepted, the election and appointment of whom are hereafter in this form of government otherwise provided for; and to set forth the several duties, powers, and limits, of the several civil and military officers of this state, and the forms of such oaths or affirmations as shall be respectively administered unto them, for the execution of their several offices and places, so as the same be not repugnant or contrary to this constitution; and also to impose fines, mulcts,

imprisonments, and other punishments, and to impose and levy proportional and reasonable assessments, rates, and taxes, upon all the inhabitants of, and residents within, the said state; and upon all estates within the same; to be issued and disposed of by warrant, under the hand of the governor of this state for the time being, with the advice and consent of the council, for the public service, in the necessary defense and support of the government of this state, and the protection and preservation of the subjects thereof, according to such acts as are, or shall be, in force within the same; provided that the general court shall not authorize any town to loan or give its money or credit directly or indirectly for the benefit of any corporation having for its object a dividend of profits or in any way aid the same by taking its stocks or bonds. For the purpose of encouraging conservation of the forest resources of the state, the general court may provide for special assessments, rates and taxes on growing wood and timber.

Amended 1792 changing "president" to "governor." **Amended 1877** changing "annually" to "biennially"; also amended to prohibit towns and cities from loaning money or credit to corporations. **Amended 1942** to permit a timber tax.

New Hampshire Constitution Part 2 [Art.] 5-b. [Power to Provide for Tax Valuations Based on Use] November 15, 1968

The general court may provide for the assessment of any class of real estate at valuations based upon the current use thereof.

Conferences, Seminars, and Meetings

EVENT

Special Topics Seminar
IAAO 75th Annual International
Conference on Assessment Administration
Fall Leadership Days
IAAO 76th Annual International
Conference on Assessment Administration

LOCATION

Kansas City, MO
Louisville, KY

Kansas City, MO
Walt Disney World,
Dolphin Hotel, Orlando, FL

DATES

June 11-12, 2009
September 13-16, 2009

October 9-10, 2009
August 29-September 1, 2010