IPTI Xtracts

Property Tax and Assessment News from Around the World

UNITED STATES - April 2018

Contents

NEW YORK - Niagara Falls assessor urges revaluation for fairness' sake

Property assessments in Niagara Falls are out of date and unfair, said City Assessor James R. Bird, who again recommended the City Council order a citywide revaluation.

"It's been 14 years," Bird said. "We have a lot of inequities in our (tax) roll."

His recommendation, however, is unlikely to be acted on this year, Council Chairman Andrew P. Touma said.

"It's not coming to a vote. We don't have the resources," Touma said.

The cost of carrying out a revaluation was not included in this year's city budget.

"City Council members have told me that in their interactions with the public, including their interactions on social media, they have recognized there's a lot of misconceptions about what a reassessment is and what it does and doesn't do," Mayor Paul A. Dyster said.

The question of a revaluation is a politically sensitive topic in Niagara Falls. Two years ago, when Bird brought up the issue and brought in a state speaker, nearly 100 people packed the Council Chambers, with some accusing officials of plotting to use reassessment to impose a stealth tax increase.

"People think it's a tax hike, but really it's just to make things more fair," Bird said.

He said it's already too late to alter the valuations for 2019 city taxes.

"It's a two-year process. There wouldn't be enough time to do it for the '19 roll," Bird said.

An official from the state Office of Real Property Services was scheduled to address the Council on Wednesday to provide information to the Council and the public.

A report last summer by the Wall Street rating firm Standard & Poor's said Niagara Falls already has the state's fourth-highest full-value city tax rate and was at 79 percent of its taxing limit.

The state Financial Restructuring Board for Local Governments last year recommended a revaluation as one way to improve City Hall's financial picture.

The state board estimated that if assessments were updated and tax rates stayed the same, the city would collect $9 million more a year.

"I think there's a growing realization that eventually, we have to look at this issue," Dyster said. "You can't just go forever without other changes in the assessment of properties. It's not very common-sensical, not very fair."

Niagara Falls has different rates for residential and commercial properties. State figures indicate the residential tax roll is at 88 percent of full value, while the commercial roll stands at 57 percent.

"The homeowners are paying their fair share. Unfortunately, a lot of commercial properties aren't," Touma said.

"That doesn't mean the little storefronts on Pine Avenue are underassessed," Bird said.

He said the shortfall is most noticeable for other types of commercial property.

KANSAS - Menards loses tax appraisal case

Appraiser Lois Schlegel appeared twice before the Pottawatomie County Commission Monday.

She was smiling broadly during her second visit, having just learned that Pott County had won its appraisal case against Menards in an appeal before the Kansas Board of Tax Appeals (BOTA).

“As of right now I’d like to do a little dance,” Schlegel told commissioners. “It was a very good letter I got today.”

The official decision from BOTA upheld the county’s appraisal of $11,689,600 for Menards at 515 McCall Road. Menards appealed the appraisal, asserting the property should be valued at nearly half that amount, or $6.5 million.

“The board rules that the evidentiary burden is on the county and finds the county has sustained its burden to support its valuation of the subject property,” the board said in its official finding.

"The county has accurately identified the characteristics of the subject property and appropriately valued its components using the cost approach," the board went on. "Based on the evidence presented at the hearing, duly weighing such evidence, the board determines that the appraised value of the subject property for tax year 2017 is $11,689,600."

Hiring a professional to conduct a fee appraisal of the Menards property was key to winning the appeal, Schlegel said.

"It (the professional appraisal) ended up costing the county some money, but it saved a lot of tax dollars," Schlegel said. "That's the key. We've got to keep on top of it and keep on fighting it."

Menards' appeal is part of a growing trend by "big box" stores across the country which claim appraisals should be based on the "Dark Store Theory." That is, property should be valued as if it is vacant and available for sale to a future hypothetical user rather than its current use as a functioning, occupied store.

If the theory gains traction, appraisers such as Schlegel believe it could have a "mushrooming" effect with other franchise business such as restaurants and hotels making similar appeals.

Such a trend would have a dramatic impact on the valuations of taxing districts and, consequently, on property tax revenues.

"If we keep losing valuation, it's going to affect municipalities — school boards, cities, everyone who relies on tax dollars," Schlegel said. "Everybody's going to jump on the bandwagon and go, if they can."

While the Pott County/Menards appeal case has attracted statewide attention (representatives of Johnson and Saline Counties attended the April 9 BOTA hearing), it may not be a significant precedent, according to Pott County Counselor John Watt.

"This was one appraisal," Watt said Monday. "We had an expert. They had an expert. Their appraisal had some problems and I don't think they will repeat those problems."

Both Watt and Schlegel believe appraisal appeals from "big box" stores will continue and that ultimately the Kansas Legislature will have to address the issue.

Commissioners applauded Schlegel and Watt for their work on the BOTA appeal. Chairman Dee McKee even offered a standing ovation.

"Congratulations to both of you," said Commissioner Pat Weixelman. "We really appreciate your hard work."

Schlegel — in her first appearance before the commission — reported 79 property sales in March, the same number as in March of last year.

"It's pretty comparable to the last three years," she said.

Schlegel also said her office heard 93 property appraisal appeals this year: 15 commercial, nine agricultural, nine farmsteads, 32 residential and 28 vacant lots.

The 15 US states where taxes take the most out of your paycheck

The amount individuals pay in taxes each year varies based on how much you earn, what kinds of property you own and how you spend and save your money. But where you live plays a role as well.

Each state's tax burden reveals the proportion of total personal income that residents must pay toward state and local taxes, which can vary wildly from place to place. To determine which states carry the highest tax burdens, WalletHub compared property taxes, individual income taxes and sales and excise taxes as a share of personal income for all 50 U.S. states.

Here are the 15 states where residents must put the highest proportions of their paychecks towards taxes.

14. TIE: Mississippi
Total tax burden: 9.32 percent

Property tax burden: 2.8 percent
Individual income tax burden: 1.72 percent
Total sales and excise tax burden: 4.8 percent

14. TIE: Iowa
Total tax burden: 9.32 percent

Property tax burden: 3.43 percent
Individual income tax burden: 2.5 percent
Total sales and excise tax burden: 3.39 percent

13. West Virginia
Total tax burden: 9.4 percent

Property tax burden: 2.43 percent
Individual income tax burden: 2.87 percent
Total sales and excise tax burden: 4.1 percent

12. Maryland
Total tax burden: 9.45 percent

Property tax burden: 2.77 percent
Individual income tax burden: 3.92 percent
Total sales and excise tax burden: 2.76 percent

11. Ohio
Total tax burden: 9.48 percent

Property tax burden: 2.9 percent
Individual income tax burden: 2.71 percent
Total sales and excise tax burden: 3.87 percent

10. California
Total tax burden: 9.57 percent

Property tax burden: 2.66 percent
Individual income tax burden: 3.65 percent
Total sales and excise tax burden: 3.26 percent

9. New Jersey
Total tax burden: 10.02 percent

Property tax burden: 5.12 percent
Individual income tax burden: 2.46 percent
Total sales and excise tax burden: 2.44 percent

8. Illinois
Total tax burden: 10.08 percent

Property tax burden: 4.11 percent
Individual income tax burden: 2.44 percent
Total sales and excise tax burden: 3.53 percent

7. Rhode Island
Total tax burden: 10.14 percent

Property tax burden: 4.7 percent

Individual income tax burden: 2.31 percent
Total sales and excise tax burden: 3.13 percent

6. Connecticut
Total tax burden: 10.19 percent

Property tax burden: 4.17 percent
Individual income tax burden: 3.34 percent
Total sales and excise tax burden: 2.68 percent

5. Minnesota
Total tax burden: 10.37 percent

Property tax burden: 3 percent
Individual income tax burden: 3.7 percent
Total sales and excise tax burden: 3.67 percent

4. Vermont
Total tax burden: 10.94 percent

Property tax burden: 5.2 percent
Individual income tax burden: 2.32 percent
Total sales and excise tax burden: 3.42 percent

3. Maine
Total tax burden: 11.02 percent

Property tax burden: 4.8 percent
Individual income tax burden: 2.69 percent
Total sales and excise tax burden: 3.53 percent

2. Hawaii
Total tax burden: 11.57 percent

Property tax burden: 2.2 percent
Individual income tax burden: 2.85 percent
Total sales and excise tax burden: 6.52 percent

1. New York
Total tax burden: 13.04 percent

Property tax burden: 4.62 percent
Individual income tax burden: 4.78 percent
Total sales and excise tax burden: 3.64 percen

New homeowners face tax disadvantage in many U.S. states

Tax breaks for longtime homeowners are one of many issues analyzed in the annual 50-State Property Tax Comparison Study by the Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence

---

In Los Angeles, a new owner of a median-valued home pays about $7,000 per year in property taxes – nearly double the $4,000 paid by someone who has owned an identical home for 14 years, the average length of homeownership in the city, according to the annual 50-State Property Tax Comparison Study by the Lincoln Institute of Land Policy and the Minnesota Center for Fiscal Excellence.

Such preferential treatment of longtime homeowners is a function of California's Proposition 13, the 1978 ballot initiative that greatly restricts reassessment of property, among its many tax-limiting provisions. Of the ten American cities with the greatest discrepancy in taxes paid by new homeowners and longtime homeowners, six are in California and two are in Florida, where the 1992 Save Our Homes constitutional amendment similarly restricts reassessment.

These discrepancies are just one phenomenon explored through the study's comprehensive analysis of effective property tax rates – the tax paid as a percentage of market value – in more than 100 cities in every U.S. state and Washington, DC.

As the study makes clear, the property tax is the most stable source of revenue for schools, public safety, and other public services and infrastructure provided by local governments. Effective tax rates vary widely, and, drawing on data for 73 large U.S. cities and a rural municipality in each state, the study explains the reasons why.

Reliance on the property tax is chief among the reasons. Cities with high local sales or income taxes do not need to raise as much revenue from the property tax and thus have lower property tax rates on average. For example, Bridgeport (CT) has one of the highest effective tax rates on the median-valued home, while Birmingham (AL) has one of the lowest. But the average Birmingham resident pays 30 percent more in total local taxes when accounting for sales, income, and other local taxes.

Highest and Lowest Effective Property Tax Rates on a Median-Valued Home (2017)

Highest Effective Property Tax Rates				Lowest Effective Property Tax Rates			
1	Bridgeport (CT)	3.81 %	Why: High property tax reliance	49	Denver (CO)	0.66 %	Why: Low property tax reliance, high home values, classification
2	Aurora (IL)	3.76 %	Why: High property tax reliance	50	Cheyenne (WY)	0.65 %	Why: Low property tax reliance
3	Detroit (MI)	3.63 %	Why: Low property values	51	Boston (MA)	0.51 %	Why: High home values, Classification shifts tax to business
4	Newark (NJ)	3.16 %	Why: High property tax reliance	52	Charleston (SC)	0.50 %	Why: Classification shifts tax to business
5	Milwaukee (WI)	2.57 %	Why: Low property values, high property tax reliance	53	Honolulu (HI)	0.31 %	Why: High home values, low local gov't spending, classification

Property values are the other crucial factor explaining differences in tax rates. Cities with low property values need to impose a much higher tax rate to raise the same revenue as cities with high property values. For example, the effective tax rate on the typical home in Detroit, which has the lowest median home values in the study, is four times higher than in San Francisco, which has the highest. In Detroit, to raise $3,000 per home – the national average tax bill on a median-valued home – would require an effective tax rate 24 times higher than in San Francisco.

The other drivers of variation in property tax rates include the treatment of different classes of property, such as residential and commercial, and the level of local government spending.

The average effective tax rate on a median-valued home was 1.49 percent in 2017, with wide variation across cities. Three cities have effective tax rates that are roughly 2.5 times higher than the average – Bridgeport (CT), Aurora (IL), and Detroit. Conversely, seven cities have tax rates less than half of the study average
– Honolulu, Charleston (SC), Boston, Cheyenne(WY), Denver, Birmingham, and Washington, DC.

Commercial property tax rates on office buildings and similar properties also vary significantly across cities. The effective tax rate on a $1 million commercial property is about 2 percent, on average, across the largest cities in each state. The highest rates are in Detroit, New York City, Bridgeport, Chicago, and Providence, where rates are at least 75 percent higher than average. Rates are less than half of the average in Fargo (ND), Virginia Beach, Honolulu, Seattle, and Cheyenne (WY).

Highest and Lowest Effective Property Tax Rates on $1-Million Commercial Property

Highest Effective Property Tax Rates				Lowest Effective Property Tax Rates			
1	Detroit (MI)	4.24 %	Why: Low property values	49	Fargo (ND)	1.01 %	Why: Low local gov't spending, Low property tax reliance

2	New York (NY)	3.90 %	Why: High local gov't spending, Classification shifts tax to business	50	Virginia Beach (VA)	0.96 %	Why: High property values, Low local gov't spending
3	Bridgeport (CT)	3.81 %	Why: High property tax reliance	51	Honolulu (HI)	0.91 %	Why: High property values, Low local gov't spending
4	Chicago (IL)	3.78 %	Why: High local gov't spending, Classification shifts tax to business	52	Seattle (WA)	0.89 %	Why: High property values, Low property tax reliance
5	Providence (RI)	3.68 %	Why: High property tax reliance	53	Cheyenne (WY)	0.66 %	Why: Low property tax reliance

The study includes a detailed analysis of classification, the practice of taxing specific types of property differently. New York City has the nation's largest discrepancy between rental apartments and owner-occupied homes, with an effective property tax rate for apartment buildings that is nearly five times higher than the rate for owner-occupied homes, or "homesteads." Boston has the largest discrepancy between commercial properties and owner-occupied homes, with an effective tax rate on commercial properties that is 4.3 times the rate for homesteads. On average, effective property tax rates for commercial properties are 64 percent higher than for owner-occupied homes, and effective rates for apartments are 33 percent higher.

About the Walmart Dark Store Tax Loophole paid for by Wisconsin homeowners

This year, in Wisconsin, an estimated 2.8 million federal tax returns will be filed by the April 17th deadline.

Additionally, local governments and school districts in the state can expect to collect more than $9 billion in property taxes this year to fund our schools, police & fire departments, and other public services.

However, one company that has not been paying its fair share in property taxes is Walmart, and it’s using something called the dark store tax loophole to shift that burden onto America’s homeowners.

What is the Walmart Dark Store Tax Loophole?

The dark store tax loophole allows big box retailers like Walmart to reduce their property taxes by appraising their property as if it was a vacant or “dark” store, thus resulting in a lower tax assessment.

In Wisconsin, Walmart and other big box retailers used this loophole to try and cut their property assessments by a total of more than an estimated $700 million last year.

And when Walmart doesn’t get its way, it unleashes its team of lawyers on our towns, like it’s done in Plymouth, West Bend, Lake Delton, Franklin, and other Wisconsin communities. Since 2014, Walmart has taken our towns to court 12 times over assessment appeals in an attempt to reduce its property tax bill.

Earlier this year, state Sen. Janis Ringhand’s bill, A.B. 386, attempted to close the loophole in Wisconsin and was supported by over 60 bipartisan co-sponsors and the League of Wisconsin Municipalities.

But in the final days of the session, Assembly Leader Robin Vos and Senate Speaker Scott Fitzgerald blocked Ringhand’s bill and tried to push a “compromise” supported by business interests that, according to the League, was “worse than current law.”

Because of Vos and Fitzgerald’s last-minute bait-and-switch, nothing was done to address the dark store tax loophole. Leaders Vos and Fitzgerald must not have homeowners in their districts, otherwise why would they place additional tax burdens on them while major corporations like Walmart get away with not paying what they owe?

Why does this matter?

In addition to Walmart's corporate welfare, an estimated $6.2 billion in annual federal subsidies, and the estimated $205 million in cumulative nationwide state and local tax subsidies the retailer has already received, the Walmart Dark Store Tax Loophole creates a tremendous burden on our society. By fleecing local government out of much-needed revenue, our public schools, which heavily rely on property tax revenue, suffer the most. And when schools are underfunded, oftentimes taxes go up or new taxes are instituted, creating more of a burden for homeowners.

Walmart could easily stop appealing property assessments made by local governments and use the $2 billion federal corporate tax break it will receive this year to pay its property taxes.

But none of this has happened and will not happen unless the American people speak out against Walmart's behavior and actions.

It's time to close Walmart's Dark Store Tax Loophole and for politicians like Vos and Fitzgerald to place their priorities with America's homeowners and taxpayers and not companies that use loopholes to get out of paying their fair share.

S.C. online shoppers may pay more (but not owe more) once tax case is decided

With the U.S. Supreme Court considering a case that could allow states to directly tax online purchases from out-of-state businesses, there's been a lot of hot air blowing around the question of whether that would amount to a tax increase.

Even the office of the S.C. Attorney General suggested that requiring retailers to collect taxes that South Carolina residents are already required to pay would amount to an increase. South Carolina is not among states whose AGs have filed briefs supporting South Dakota's attempt to change the status quo.

"The office of the Attorney General had concerns about overturning U.S. Supreme Court precedent that would allow state and local governments to increase the tax burden on our citizens," S.C. Attorney General Alan Wilson's spokesman Robert Kittle said earlier this month.

Here's the thing: At least in South Carolina, it's not a question of whether to tax online purchases. It's a question of who actually pays the tax to the S.C. Department of Revenue.

If you just recently filed a state income tax return, you may have noticed that one of the last items to fill out was a line asking you to declare any "South Carolina Use Tax" owed. That's what they call sales taxes that weren't collected by the seller, whether the purchase was made online, by catalog or even at a store in another state with a lower sales tax rate than South Carolina's.

"This is the tax due on purchases outside of South Carolina for use, storage, or consumption in South Carolina," the instructions for the tax form explain.

For the 2017 tax year, individual South Carolina taxpayers paid just over $2 million dollars to the state to account for sales taxes owed on online, catalog or out-of-state purchases in states with lower sales tax rates, according to the Department of Revenue. They either declared the tax owed on their income tax returns or on a special state tax form, the UT-3.

Of course, lots of South Carolina taxpayers seem unaware of or ignore the rules. And I can't recall hearing of the Department of Revenue going after individuals for failing to declare, for example, that they had purchased some socks online from L.L. Bean, or did some tax-free retail shopping in Delaware.

That could explain why the U.S. General Accounting Office has estimated South Carolina would gain between $132 million and $193 million in revenue annually, if all online retailers were required to collect and forward state sales taxes.

In a way, then, the S.C. Attorney General's office's carefully worded statement was correct. A Supreme Court ruling that would force merchants to collect state sales taxes would "increase the tax burden" — but only because taxes that residents are already supposed to pay would actually get collected.

Currently, some online businesses collect South Carolina sales tax, and others do not. They must if they have a physical location in the state. Amazon.com, the big dog of online retailers, has collected sales tax in South Carolina since the start of 2016 on merchandise it sells directly to shoppers.

Retail stores and South Carolina municipalities have a stake in this, too. All those local-option sales taxes for property tax relief, roadwork and schools could be collected on online purchases if the Supreme Court sides with South Dakota. A portion of the statewide sales tax also funds schools.

And South Carolina retail stores could see an end to the unfair competition from online merchants that don't collect sales taxes, thereby making their prices appear lower.

Bottom line: if the Supreme Court changes the rules, South Carolina residents won't owe more sales tax, but they may end up paying more because the tax could be collected.

If the rules are left unchanged, South Carolina consumers will continue to be required to keep track of everything they buy online, all year, and then pony up the sales tax owed when they file their next income tax returns.

And many, if not most, will continue to be unaware of the rules or ignore them, depriving their state's budget of at least $132 million a year.

NEW YORK - Property Taxes Are Highest in the Suburbs

That dream home in the New York suburbs comes with a hefty property tax bill.

Homeowners in the five boroughs of New York City can agree on one thing: property taxes are too high and they're unfairly assessed. A lawsuit has been filed seeking a court-ordered solution to the long-standing inequities, and Mayor Bill de Blasio has vowed to tackle the issue during his second term. Now comes a bit of heartening news: things could be worse, New Yorkers; you could be living in the suburbs.

Among the 10 U.S. counties with the highest average property tax bills last year, nine are within commuting distance of Manhattan, a new analysis by Attom Data Solutions shows. Marin County, north of San Francisco, is the only one outside the region, Bloomberg reports.

Topping the list is Westchester County, home of Scarsdale and Bronxville, where the average property tax bill was $17,179, well above the new $10,000 limit on deductions for state and local levies under the GOP tax law. (The new tax law limits the mortgage-interest deduction as well at new loans of $750,000.)

In the No. 2 spot is Rockland County, just across the Hudson River, where homeowners paid an average of $12,924 last year. Nassau County landed at No. 5, Connecticut's Fairfield County was No. 8, and the rest of the spots all went to counties in New Jersey: Essex, Bergen, Union, Morris and Passaic.

In the latest budget, New York state legislators created two loopholes designed to allow taxpayers to convert property tax payments into charitable donations and then writing them off, effectively reducing the burden. It's unclear if the Internal Revenue Service will permit the practice.

"There's a bullseye on New York City and surrounding counties," says Daren Blomquist, a senior vice president at Attom Data Solutions. "Some folks are going to want to sell, and there could be weaker demand for some homes in those areas as well."

NEW YORK - Viewpoint: Long Island should resolve "unsustainable' property tax conundrum with a novel income tax formula

For the first time in, well, forever, I am feeling that Long Island is on the move. Governments of both Nassau and Suffolk counties are clear-eyed about confronting challenges – some systemic – in sustainable ways, do not seem to be sabotaged (so far) from in-fighting (that is, a Democratic County Executive working with the Republican-controlled Legislature), and the counties are even working collaboratively as a Long Island Region.

But, “There are two major impediments to Long Island’s sustainability,” John Cameron, of the Long Island Regional Planning Council, told the Long Island Business Council. “The first is an unsustainable tax burden, and the second is lack of diversity in housing – ie. rental housing – for the workforce and empty nesters.”

The two counties are cooperating on retaining the services of a consultant to evaluate alternatives to the property tax burden.

There are basically three categories of taxes: property, income and sales (though a municipality has other sources of revenue, including fees and fines).

Long Island, he says, is more heavily dependent on property taxes than any other in the nation (two-thirds going to support schools).

“We looked at alternatives – identified the inequities experienced in some communities- for example, some lower-income, minority communities are more adversely impacted by property tax; communities with low commercial tax base pay undue burden of taxes.”

That falls into the problem of the tax certiorari issue of an assessment system that is deemed unfair and has produced an unvirtuous cycle of tax challenges and refunds (Nassau County is drowning in $1 billion in liabilities costing $100 million a year in interest, alone).

How to break the cycle?

First by undertaking a fair assessment (which the Curran administration is now doing, unfreezing the eight-year freeze on the rolls and conducting a new assessment) and then having the courts adjudicate, rather than capitulate (I think to connected attorneys) to refund-seeking property-owners; looking for ways to increase the tax base that conforms with retaining the suburban character of our communities (the best solution is Transit-Oriented Development; mixed-use development, Complete Streets strategies which promote the walkability, bikeability and liveability of a community, and yes, affordable housing, as well as cultivating new technology-based enterprise).

There was even talk – get this – of some form of income tax to replace (I would suggest replacing part) of the property tax, such as New York City has.

An income-tax alternative to the property tax is worthy to contemplate, but I would submit, in a different way than income tax has been thought of before.

There is no question that property taxes are regressive – people who live in homes that have increased in value over decades do not necessarily earn the incomes to pay that share of the property tax pie.

But I have long argued that our suburban single-family homes are socially engineered for families who will take advantage of quality public schools (that accounts for two-thirds of the property tax bill); the high property taxes nudge empty-nesters out to make room for new families, who similarly will benefit from quality public schools (while empty-nesters recoup their investment).

Otherwise, you have homes occupied by empty-nesters for say 20 years -an entire generation -depressing school enrollment that results in buildings being underutilized, budgets being slashed, as happened in Great Neck in the 1980s, until a new generation comes in and finds aging buildings overcrowded and in disrepair.

An alternative for empty-nesters who want to stay in their communities is housing that better fits their needs (something that the Village of Great Neck is contemplating with its revisioning of Middle Neck Road and East Shore Road) and, significantly, comes with nominal, even token property tax liability.

A new formula for financing schools and local communities could be a combination of property tax (at a much lower share) and income tax also makes sense to promote affordability of home ownership to young families.

It is important to interject here that home ownership, once a pillar of the American Dream, is still a vital American value, and that just making rental housing available is not the solution to affordable housing.

Homeownership leads to stable communities and I would argue, engaged voters and citizens who see their tax dollars as an investment in community services, quality of life and yes, home value. It is the difference between marriage and living together.

Home ownership, as opposed to renting, also contributes to a family's ability to amass wealth: a mortgage decreases over time as a share of a family's expenses because of inflation so there is more money to spend on say, college (which contributes to higher income and wealth), while rent continues to increase with inflation; and in most instances, the value of a home increases over time, providing the family with a retirement nest egg.

A goal of society, then, should be to promote home ownership, but that is not the goal of banker/landlords.

The problem with income taxes in the way they are now collected by state and federal government is that they are not tied to an actual budget.

The way that is done now is that school districts prepare a budget and assess tax revenues based on raising that amount of money and not a dollar more.

But income taxes work differently – the state and federal governments prepare their budgets and then get their income taxes, and hope the gap isn't significant.

So a new formula – one that replaces, say two-thirds of the revenue generated now from property tax with an income tax – is important to start with the objective: to properly and fairly fund our schools and local services.
The resident's share would be determined in the same way as property taxes – a share of the pie – which would be assessed by submitting the prior year's state income tax form. Like property taxes, all that income would become the total valuation, and the resident's share would be allocated.

This will immediately elicit screams that wealthy neighborhoods will have no trouble funding public schools. But that is already the case.

As it is, wealthier communities have their property taxes lowered because of commercial activity; the equalizer has been more state aid going to those communities, which would continue to be the case with this new income tax-property tax formula.

Sales tax is the third key source.

In Suffolk, sales tax revenue amounts to $1.6 billion – half of the county's $3.2 billion budget. Property tax, in contrast, amounts to only $49 million.

This is why Long Island is pushing so hard for the state to make sure e-commerce collects sales tax. Suffolk projects that it is losing $10 million-11 million a year in sales taxes through sales diverted from its own brick-and-mortar merchants to out-of-state e-commerce vendors.

Economic revitalization is also key to the sustainability of Long Island, which once was a leader in the defense and aerospace industries, and should be a leader in biotech, advanced precision medical research, stem cells, renewable energy (offshore wind), especially considering the concentration of brainpower and research centers across the island (Stony Brook, Long Island University, Farmingdale, NYIT, etc.)

PSEG LI's support of offshore wind and solar power is key but their municipalities can do far more with biomass from its sanitation systems (no reason why an entrepreneur doesn't collect the wasted cooling oil from the thousands of Long Island restaurants and convert to biodiesel); with capturing heat for electricity in their buildings, requiring electric vehicles for their fleets; putting solar panels on public buildings; utilizing green roofs on buildings. This is also economic revitalization: the businesses that produce these products, the workers who install and maintain. Clean energy is the fastest growing industry in the country- five of the fastest growing jobs in the US are in clean-energy; US wind added 25,000 workers to 102,000 in 2016; solar added 73,000, a 25% increase.

PSEG LI is very much engaged in the economic development piece of the Long island sustainability puzzle. The utility recently instituted two programs: Vacant Space Revival program, which offers a first-year discount to a new small business of $1500 to $10,000, depending on size.

A second program, Main Street Revitalization Program, provides for grants up to $100,000 for revitalization projects, from a façade improvement to an entire building or neighborhood.

NEVADA - Tax Cap Keeping Property Taxes, Cost-of-Living in Las Vegas Affordable

The news when it comes to Las Vegas real estate, day in and day out, mainly consists of the skyrocketing home prices and scant availability of properties for sale, resulting in a mad scramble for just about any home or condo that a buyer can get their hands on. It's been like this for a while now due to Vegas' booming economy and quickly-recovering job and housing market, but what is life in Southern Nevada like once you're lucky enough to have finally gotten your hands on an abode? Will the cost of living – mainly, property taxes – prove to be yet another hurdle to deal with?

In a word, no. In more words…well, please read on.

Unlike other regions in the United States, such as New York, where high taxes are driving people out to greener pastures (financially speaking), Las Vegas features a strict property tax cap that assures homeowners that their costs will only incrementally increase from year-to-year, keeping their bottom lines manageable. In addition, the sale of a home in Vegas does not trigger a reassessment of the property for tax purposes, therefore the purchase price of any given home will not be adversely affected; this prevents property taxes from being a deterrent from any given property sale in the region.

The tax cap is currently set at three percent and ensures that property taxes can only increase that currently set amount – and not a penny more – in any given year. The cap is re-examined each year by the state, and features a variable rate; in recent year, the property tax cap in Las Vegas has been as low as one percent and as high as eight, although recent trends have seen the rate slowly increasing as if late.

An major advantage of the tax cap is the fact that it currently works hand-in-hand with the fact that most properties in Vegas received their most recent re-assessments at the end of the mid-2000's recession, a time when property values were at an all-time low; while the market has bounced back and house values are the highest they've been in over a decade, the tax cap greatly prevents property taxes from increasing at the same speedy rate.

To really get a sense of how much cheaper the cost of listing in Las Vegas is, one merely has to look it Nevada's neighbors to see how the other half lives; Mike Scanlin, CEO of IT company Born to Sellrecenly noted that his 2016 move from California's Silicon Valley to Las Vegas saved him a small fortune in terms of property taxes.

"California has a nice climate, but the state income taxes, property taxes and property values drove me crazy," he said. "You can make half as much in Las Vegas and save more money. In fact, the money I'm not paying in California state income tax is more than the mortgage on my 2,400 square-foot home."

As you can see, the appeal to newly transplanted residents of living and working in Las Vegas isn't just the economy, or the culture, or the job market, or the influx of new businesses and enterprises, or the booming real estate…it's the quality of life and bang for your buck you can enjoy once you've arrived and settled down as well, allowing you to work less and enjoy life more while you're at it.

MICHIGAN - Cities can raise your property taxes for adding solar panels, Tax Tribunal rules

Residential solar panels are not common enough to be exempt from taxation.

That was the central point in Michigan Tax Tribunal Judge Steven Lasher's final opinion filed March 12 in a case involving Ann Arbor residents Mark Clevey and Nancy Fenton, who do not think the city should raise their property taxes as a result of the solar energy system they installed at their house in May 2016.

Lasher's opinion confirmed the city's ability to increase the taxable value of a property based on the installation of a solar energy system.

Clevey's attorney, Samuel Field, filed a motion asking the Tax Tribunal to reconsider its opinion, and that motion was denied Friday, April 13. Clevey said he plans to appeal the decision to the Michigan Court of Appeals.

"We're going to take this all the way to the Supreme Court if that's what it requires," Clevey said. "If this is the only way solar people can get taxation with representation is by going to the Supreme Court, then so be it."

Solar energy advocates say the higher tax rate creates a disincentive for more people to install alternative energy systems.

The topic has been of interest statewide as state agencies have released conflicting information on how to tax residential solar systems. Other communities, including Ypsilanti, do not tax residential solar energy systems.

Ann Arbor says it is obligated by state law to tax the solar systems.

Not every city in Michigan does this, but Ann Arbor does.

The taxable value of Clevey and Fenton's house - located south of Ann Arbor's Burns Park neighborhood - increased by $5,686 from 2016 to 2017, according to tax records submitted to the Michigan Tax Tribunal.

From 2014 to 2015, the taxable value of their property increased by $1,895.

After unsuccessfully asking the city's board of review to adjust the taxable value of the house, Clevey petitioned the Michigan Tax Tribunal for a ruling on the tax dispute in May 2017.

Judge Robin Schleh issued a proposed opinion in the case in December 2017, upholding the city's right to tax the solar panels.

Ann Arbor resident Mark Clevey has found himself at the center of a taxation debate that could have implications for property owners across Michigan who use solar energy.

For property tax purposes, fixtures "owned and used by a householder" are generally exempt from taxation, she said

Michigan law allows personal property like furniture, clothing, fuel and certain kinds of equipment to generally be exempt from property taxes, but there are some exceptions.

Property that is used to produce income, is held for speculative investment or constitutes an inventory of goods for sale can be taxed.

Schleh found that solar panels are "used to produce income" - by reducing the amount of energy the homeowner needs to purchase from DTE Energy - meaning the property should be taxed.

Field argued that the idea that solar panels produce income is incorrect. The economic purpose of the solar energy system is to reduce the annual expense of electricity, but the homeowner does not sell power back to the utility company or make a profit, he argued.

Lasher's final opinion said the preliminary finding erred in using the income-producing property clause as the deciding factor in support of taxing residential solar panels. However, he said, the whole point is moot.

"Instead, the Tribunal finds that it need not consider whether the panels are income-producing property ... because they do not qualify for exemption under that subsection regardless of their income-producing potential," Lasher found.

In the final opinion, Lasher focused on whether solar panels fit the definition of "customary furniture, fixtures, provisions, fuel, and other similar equipment" - which are types of personal property exempt from taxation.

While installing solar panels on a house is "not exceedingly rare," it also is not as usual as a "more customary affixture such as a light fixture or bookcase," states the Tax Tribunal's final opinion.

Therefore, solar panels should not be considered customary fixtures that are exempt from taxation.

The City Council voted 8-2 to approve new regulations for solar arrays.

Field said this is the only instance he knows of where a court used the word "customary" to determine whether an item is tax exempt.

In his request for the Tax Tribunal to reconsider the final opinion, Field pointed out there were 2,331 solar energy system installations in Michigan as of the end of 2016, according to a report from the Michigan Public Service Commission.

He also listed other examples of personal property fixtures - like wine coolers and standby generators - that are more rare than residential solar systems.

"So I guess, this is the solar panels exception," Field said. "This is not the end of the case."

Retiring City Assessor Dave Petrak could not immediately be reached to comment on the Tax Tribunal's decision.

Maine Enacts Property Tax Modernization and Improvement Law

Maine recently passed L.D. 1479, An Act To Modernize and Improve Maine's Property Tax System, which implements certain changes to the state's property tax assessment, review, and appeals processes. This law grew out of discussions at the Maine Pulp and Paper Association Summit held in late 2015. At that event, the pulp and paper industry identified the state's property tax system as one of the industry's challenges; in particular, the state's high industrial property tax valuations and byzantine appeal process. This tax issue was quickly identified as one that could be resolved through new legislation. Out of this discussion, L.D. 1479 was born.

L.D. 1479, sponsored by Rep. Steve Stanley of Medway, was first introduced in 2017, and was carried over to the 2018 session after local assessors opposed making changes to the current system. After negotiations with stakeholders, the measure underwent a number of changes before ultimately being passed into law earlier this month as Public Law c. 367.

The new law represents a compromise among municipal interests, taxpayers, and other stakeholders. While there is still room for further improvement, the new law makes several key changes to the state's property tax system:

Beginning August 1, 2018, at least one member of the State Board of Property Tax Review must be a person with expertise in taxation, finance, or property valuation matters. This new state board position will be appointed by the Governor.

The parties must engage in a mediation process for all appeals filed with the State Board of Property Tax Review.

The law clarifies the statute governing information requests made by assessors to taxpayers.

Most importantly, the law creates a nine-member task force, the Task Force To Restructure and Improve the Efficiency of the State Board of Property Tax Review. The Task Force will study, assess, and evaluate the process of, and the duties assigned to, the State Board of Property Tax Review and will develop recommendations for restructuring the Board as necessary by February 2019. Two of the members of the Task Force will be appointed by the Governor to represent large industrial property taxpayers.

Big Box Stores Say Kansas Property Taxes Should Be Based On Vacant Building Value

A roiling debate over how to assess big box stores — their worth when occupied, or their value as vacant properties — could upend property tax systems across Kansas.

At the heart is the "dark store theory," as critics call the strategy. It contends property valuations should look at what an empty store could fetch on the open market.

That would dramatically cut their property tax bills, forcing county and local governments either to get by on smaller budgets or shift a heavier burden to other property owners.

Johnson County sits at the epicenter of the debate. Many retailers, including Target and Walmart, are appealing their valuations. Johnson County Appraiser Paul Welcome said the issue is simple: buildings that are occupied are typically more valuable than empty stores. So if a building is occupied, he said, its valuation and resulting property taxes should reflect that higher value.

"Do you really want the county appraiser to be hypothetical?" Welcome said. "We're required to evaluate what is there, not what someone thinks ought to be there."

Part of the debate looks at hypothetical leased valuation, where an assessment is based on the potential cost to lease the property. That's typically lower than the current valuations. That strategy has won some initial victories in Kansas.

If big retailers are successful in lowering their valuations, Welcome said that could move more tax burden to homeowners.

"Those residential property owners will have to pay more taxes. Simple as that," he said.

Some recent tax court rulings in favor of retailers mean the issue will continue to percolate. Welcome expects the property tax appeals will move on to the state court system.

Attorney Linda Terrill, who is based in Johnson County, is president of the American Property Tax Counsel. She told Kansas lawmakers earlier this year that the dark store theory name distracts from the real issue, massive increases in property valuations.

"The dark store theory has a lot in common with the tooth fairy. Neither," Terrill told a Senate committee, is "real."

She said major retailers in Johnson County saw property tax valuations increase by an average of 85 percent between 2015 and 2016, meaning a sharp jump in property tax bills.

"These are valuations that companies don't plan for (and) can't absorb," she said. "Who wouldn't file an appeal if their taxes doubled?"

Property taxes should be based on the actual value of the property itself and its sale value, Terrill said.

She contends the stores are being taxed based on the tenant, not the property. She said that's akin to basing home property taxes on the income of the owners.

The issue has affected businesses beyond just retailers, said Daniel Kurz, a partner at Integrated Capital, an investment firm that owns the Marriott hotel in Overland Park. He told legislators that the company is not trying to skirt paying the taxes that fund government operations.

"We accept responsibility to fund our share of these important services," Kurz said.

Yet Kurz called Johnson County appraisers "out of touch with economic realities and fair valuations." He said the valuations make the Marriott less competitive with other hotels.

Terrill notes the county increased property taxes just before a tax lid put in place by Kansas lawmakers took effect, which limits some property tax increases.

Welcome defends the increases and the county's tax policy. He said the county lowered valuations during the Great Recession.

"Then we had a couple (property) sales that indicated that we were significantly undervaluing," Welcome said.

The county then commissioned a study of valuations and other factors. He said the tax rates increased in 2016 based on the property sales and the study indicated the valuations were too low.

With little time left in the 2018 legislative session, it appears unlikely lawmakers will take action on the issue. As the fight over valuations continues to work its way through the courts, it may come to a head next legislative session.

Study: Florida has 2nd lowest tax burden in U.S.

Florida's state and local tax burden was the second lowest in the U.S. in fiscal 2016, according to a recent report produced Key Policy Data (KPD), a joint venture between Public Choice Analytics and Visigov.

The report relies on an income-based analysis dividing the state's total tax collections by its private sector personal income. The national average using this methodology was an overall local and state tax burden of 14.3 percent of income; Florida's was 10.6 percent.

While Florida's ranking is notable in itself, the fact that its tax burden has steadily declined since fiscal 1950 puts it in an elite category with only two other states that "have accomplished this amazing feat," KDP notes, Alaska and South Dakota.

Alaska ranks No. 1 in the KPD study, with the lowest state and local tax burden in the U.S. Alaska's tax burden decreased by 49 percent since it became a state in fiscal 1959; South Dakota's by five percent since fiscal 1950, according to KPD's study.

In fiscal 1950, Florida's tax burden was 12.1 percent of personal income. In fiscal 2016, it was 10.6 percent, reflecting a decrease of 13 percent in over 60 years.

KPD states that Florida's low state and local tax burden can be first attributed to having no state individual income tax. State income tax, KPD said, "tends to be progressive (higher tax rates on higher levels of income), which increases the tax burden over time."

The Tax Foundation, a non-partisan educational and research organization, notes that Florida's state tax burden has consistently ranked among the nation's lowest for decades. However, KPD and the governor's office point to recent policy changes that have reduced taxes even further.

KPD points to state policies that have consistently reduced property taxes and all other taxes – by large margins. Florida property taxes (3.7 percent of income) are the 20th lowest in America, evidencing a reduction of 26 percent. All other taxes show a reduction of 60 percent. These declines, KPD notes, are offset by a growing sales tax that increased by 337 percent (to 3.7 percent), and is the 18th highest in the country.

McKinley P. Lewis, Deputy Communications Director for Gov. Rick Scott, points to several examples among the more than 100 tax cuts Scott and the Republican-controlled legislature approved since 2010 that he states saved Floridian families and businesses more than $10 billion.

Since 2011, he notes, 75 percent of Florida businesses were exempted from the corporate income tax, saving Florida job creators more than $50 million a year. The state also reduced the commercial lease sales tax by more than 5 percent, saving businesses more than $90 million annually.

This legislative session, Scott proposed, and the legislature approved, Amendment 5 to be placed on the November ballot that would give Floridians the opportunity to vote to amend the Florida Constitution to make it harder for politicians to raise taxes.

"The results of these tax cuts speak for themselves," Lewis said. "Since December 2010, Florida has created nearly 1.5 million private-sector jobs and our unemployment rate is below the national average."

KPD compared the burden of tax systems across states by measuring tax collections against the size of the economy. It defines this as the "total private sector share of personal income, which is personal income minus government compensation and personal current transfer receipts" such as Social Security, Medicare, and Medicaid.

Florida collected $70.2 billion in state and local taxes, or $3,399 for every man, woman, and child.

J. Scott Moody, director of the Family Prosperity Initiative, said the purpose of the study was to "put the tax burden into better context by measuring it against the size of the private sector (as measured as a percent of personal income). Ultimately, it is the private sector that creates new wealth and income. A high tax burden means a state is hobbling its private sector relative to other states and reducing their long-run economic growth potential."

KPD calculated the local government tax burden for every county and listed the top 20 that have the least and most expensive tax burdens in the state. The five counties with the highest local government tax burden are Putnam (19.1 percent), Hamilton (13.4 percent), Franklin (10.3 percent), Gulf (10.1 percent), and Union (8.9 percent).

The five least expensive counties are Lake (4.5 percent), Marion (4.4 percent), Holmes (4.4 percent), Manatee (4.3 percent), Hillsborough (4.3 percent).

“It is no surprise that Florida has attracted over 3.4 million people between 1991 and 2017 with its low tax burden, especially having no personal income tax, no estate tax, and manageable property taxes," Moody said. "Florida’s state and local governments only consume 10.6 cents for every dollar created by the private sector, which is the second lowest tax burden in the country.”

CONNECTICUT - Understanding the Great Connecticut Taxpocalypse

The state relies on property taxes, and after the GOP tax bill, many fear that housing values will stagnate or crash.

Wall Street is warning Connecticut that its cities and towns could be in danger. An analysis released by Moody’s last week says that recent changes to federal tax law may wreck municipal finances across the state. From Stamford to Hartford, that’s not exactly a surprise to Connecticut residents.

Back in December, when Congress passed a major revision of the tax code, the bill included a cap on the state and local tax deduction. Wealthy households in high-tax states especially benefited from this provision, making the state and local tax (or SALT) deduction an easy target for a unified GOP government.

In states with high local and state taxes—due today, don’t forget!—the new dispensation could lead to stagnant property values. That, in turn, affects property tax receipts. And Connecticut relies on property taxes like almost no other state.

“Because fewer people are going to be able to deduct the property tax, there is the concern that this will lower the demand for housing,” says Richard Pomp, professor of law at the University of Connecticut. “That will lower a municipality’s property tax base at the next reassessment.”

Capping the state and local tax deduction, while doubling the standard deduction for married couples, means fewer households choosing to itemize, or more households owing more to Uncle Sam. In high-tax states—namely California, Connecticut, New Jersey, and New York—these taxpayers may balk at then paying higher local rates to make up a shortfall.

“There is no way to sugarcoat the fact that the recently passed sweeping federal tax reform will adversely impact a majority of property taxpayers and towns and city governments across Connecticut,” says Kevin Maloney, communications director for the Connecticut Conference of Municipalities, in an email.

“Limiting the ability of Connecticut towns and cities to write off property tax paid annually will only place more pressure on the property tax in Connecticut, making Connecticut local economies and tax environment more uncompetitive and depressing the value of homeownership,” he adds.

More than 41 percent of returns in Connecticut included a SALT deduction in 2014, the last year available. The average amount for this deduction was $19,000. Property taxes represent an absolutely vital source of revenue for cities in Connecticut: According to the Lincoln Institute for Land Policy, property taxes account for 60 percent of local revenues—twice the national average.

Connecticut also ranks as the state with the highest income inequality across the nation. This is reflected in enormous disparities between rich and poor cities and their ability to fund services through property taxes. Yet despite the stark difference in their circumstances, both rich and poor cities are likely to feel the sting of the new federal tax regime, thanks to high fixed costs (such as pensions) that affect everyone—and a state government whose finances are as tricky as any city’s.

Hartford, which flirted with bankruptcy just last year, nevertheless faces brighter prospects than many Connecticut cities. (Even Moody’s agrees). Still, the city is not as rich as its suburbs, says Vasishth Srivastava, spokesperson for the mayor’s office. Its property tax base runs to $4 billion, about the same as its suburbs, Farmington and Glastonbury, smaller enclaves with higher median incomes. The difference: Half of the real property in Hartford is tax exempt—the hospitals, universities, and museums that make Hartford an employment hub and tourist draw.

As Hartford Mayor Luke Bronin puts it, “You cannot run a city on the tax base of a suburb.” The city’s new budget, released on Monday and subject to state oversight, reflects its precarious position. Despite new reductions on services on top of deep budget cuts passed last year, the budget imagines a $50 million gap between revenues and expenditures, assuming no big changes from the state government. A state committee now signs off on any spending by Hartford, including this budget, after the state retired more than $540 million in debt owed by the city last year in order to help Hartford stave off default.

Cities across Connecticut are balancing service cuts with spending cuts and tax hikes. Making matters worse, the state’s population is shrinking, as residents follow companies out the door. Hartford plans to weather the storm by doing what it can to draw more residents of all sorts to the city—a strategy to keep the bottom from falling out. (The insurance company Aetna planned to leave Hartford before its acquisition by CVS; for now, it’s staying put.) The Hartford campus of the University of Connecticut relocated last fall from West Hartford to downtown. The city also picked up a minor league baseball team, the Yard Goats, from New Britain—another effort to keep students and empty nesters in town.

“Hartford as well as the other major urban areas have limited taxable property that pays property taxes,” Pomp says. “Anything that might drive down the value of real estate is a possible threat.”

The very wealthiest households in Connecticut may make up enough in tax cuts from the Republican bill to offset their higher property tax obligations.
But there are many cities and towns in the Nutmeg State with far dimmer prospects. The “significant headwinds” predicted by Moody’s pose an even larger threat in Bridgeport, a long-suffering industrial city in the state’s southwest. A shrinking tax base and plummeting property values has generated a vicious cycle of ever-higher tax increases on remaining residents: As The Atlantic’s Alana Semuels reported in 2016, Bridgeport's punishing vicious cycle has led to the highest tax burden in the nation.

In that year, a Bridgeport family making $75,000 a year faced a tax rate of nearly 16 percent. The city’s wealthy households have already fled the city, for the most part, but the GOP tax bill could still drive others away. But Bridgeport’s high taxes slam the middle class, too. The city is asking the state for a deal like Hartford’s—so far, unsuccessfully—although it is not volunteering to submit to a state oversight board.

“Hartford is blessed by having an extremely bright and high-energy mayor who seems to be turning the corner,” Pomp says. “One doesn’t have the same confidence in Bridgeport.” (Bridgeport Mayor Joseph Ganim served 7 years in federal prison on corruption charges between his prior term as mayor, which ended with his conviction in 2003, and his reelection in 2015. The mayor’s office did not answer a request for comment.)

Fairfield, an affluent town next door to struggling Bridgeport, suffered a major blow when General Electric decamped to Boston two years ago, leaving its corporate headquarters after more than 40 years in Connecticut. Despite the generous corporate tax cuts that Connecticut gave GE, Fairfield could not compete for the culture, convenience, and concentration of tech workers offered by Boston. The question now haunting cities across Connecticut is whether residents will follow suit.

No one can say for sure. For starters, the very wealthiest households in Connecticut may make up enough in tax cuts from the Republican bill to offset their higher property tax obligations. But if wealthy households don’t make out OK—if Moody’s is right and Connecticut cities are screwed—then the first tell may be when wealthy snowbird households decide to spend more than half the year in Florida.

“It could be that the estate tax combined with the new cap on state and local taxes will be just enough to make it worthwhile to spend the money on tax lawyers and the inconvenience of being out of the state for half the year,” Pomp says.

Connecticut’s struggle to keep them is playing out in the courts. The state, along with New Jersey and New York, has sued the federal government over the tax law, arguing that the change to the SALT deduction violates the Equal Protection Clause and the Tenth Amendment. Meanwhile, the Connecticut state legislature is mulling changes that would allow taxpayers to set up trusts to give charitable (and deductible) contributions to the state government. For wealthy Connecticut households, that might be easier than than relocating their country club memberships to Fort Lauderdale.

For Hartford, the best way to adjust to a new tax landscape is to double down on the city’s strengths. The city has added more than 1,000 housing units over the last few years by converting former industrial buildings downtown. Luring a new campus downtown is a similar effort to “put feet on the street,” as Srivastava says.

“The campus is one part of the effort to build a critical mass of people and that supports smaller businesses like coffee shops,” he says. “Then you hopefully get the virtuous circle, where people draw more people, and small businesses draw more small businesses.”

California's candidates for governor don't talk about taxes much. They need to start

Modernizing California's archaic, unstable tax system is one of the most important tasks the next governor will face — or should. But it's not a burning topic on the campaign trail.

That's because Democrats feel it's an issue that can only cause grief.

Republicans like to rail against high taxes and call for them to be lowered. But they no longer seem capable of winning the state's highest office.

The biggest problem with California taxes is that they were designed for a retail economy that no longer dominates. We've become a service economy that basically isn't taxed.

To make up for it, state income taxes have been raised to the sky, particularly on the rich. California's top rate is 13.3%, astronomical for a state. And that tax revenue is volatile and unreliable because it's tied largely to capital gains. Those capital gains dwindle during a recession.

When the economy dips, income taxes overall fall into the dumpster, forcing sharp cuts in funding for education, healthcare and other government programs.

Most Californians — especially Republicans — naturally believe they're overtaxed. A recent poll by the nonpartisan Public Policy Institute of California found that 56% of adults think they pay more state and local taxes than are warranted.

California's taxes generally are high, no question. But the overall state tax burden relative to personal income hasn't changed much in the last half-century. In 1968, total state taxes per $100 of income were $6.36. This year, they're projected to be $6.94. The figures have consistently hovered around those marks.

The state Franchise Tax Board released data last week that illustrated the state's unhealthy reliance on the rich. In 2016, the top 1% paid 45.8% of the state income tax revenue while accounting for 23.1% of the personal income. The top 10% paid 78% of the total tax revenues. The bottom 80% contributed just 10.6%.

To be in the top 1%, you'd have to earn at least $580,429. The threshold for the top 10% was $157,451.

What California needs to do is lower income tax rates to a more reasonable ceiling, say 10%. Additionally, the state should reduce the sales tax rate while broadening the levy to services. Clamp a sales tax on services provided, for example, by lawyers, accountants and architects. They're used mostly by the wealthy anyway. The state should also tax auto repair labor and entertainment, such as Dodgers tickets.

In addition, there's the seemingly sacrosanct Proposition 13 property tax law, which will be 40 years old in June. It needs retooling.

Because of the law, taxes are assessed less on a house's worth than on how long the owner has lived in it. How silly is that? Taxes on similar houses next door to each other can vary by thousands of dollars. If you want to help retired senior citizens keep their homes, just freeze their property taxes.

A more addressable problem involves large commercial property. It's reassessed only when more than half of the ownership turns over at once. A proposed November ballot initiative would assess business property at market value.

Proposition 13 substantially lowered property tax revenue for schools and local governments, which turned to the state for bailouts. State government took over most of the financing for schools and raised income and sales taxes to pay for it. The state universities then got less and tuitions leaped dramatically.

It's all a mess.

Democratic gubernatorial candidates agree, but shy away from offering detailed proposals. It's a risky subject that provides killer scripts for attack ads.

All the candidates promise to address the issue if elected. Gov. Jerry Brown hasn't. He made the volatility worse by winning voter approval of a soak-the-rich income tax hike to balance the budget.

Brown, however, did create a modest "rainy-day" fund to stash surplus capital gains revenue in good times to be spent when the economy inevitably turns sour. He's proposing to fill the fund at its $13.5-billion legal capacity in the next fiscal year.

Lt. Gov. Gavin Newsom, the front-runner to replace Brown, says he's game for a significant tax code update.

"We can broaden the [sales] tax base," Newsom has said. "We can actually tax the economy that exists today, not the economy of 100 years ago, which is our current tax structure."

Newsom and all the Democratic candidates say they're willing to rethink Proposition 13.

"Proposition 13 and the entire tax system is broken and needs to be reexamined," said former Los Angeles Mayor Antonio Villaraigosa. "That means we need to look at every aspect of our tax system comprehensively."

Villaraigosa says he won't support a proposal to change one tax only. He wants a thorough "restructuring" that makes the system "more stable, fair and better able to promote the creation of high-wage jobs."

State Treasurer John Chiang pledges "to lead a major overhaul of our tax system in my first term as governor." California "hasn't overhauled its tax system since 1935," he adds. "It's still stuck in the agrarian economy."

Former state schools chief Delaine Eastin wants to tax commercial property at market value and use most of the revenue for education. "California got rich because it invested in education," she says. "Then we got amnesia and forgot how we got here."

There are other important issues the next governor should face: regulatory red tape, homelessness and water.

But none are as politically dicey as taxes. That's why we don't hear much about it. We should.