Comparison of Property Tax Structures in Select States

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Issue

Provide a brief comparison of the property tax structures in Connecticut, Massachusetts, New Jersey, and New York.

Summary

Connecticut, Massachusetts, New Jersey, and New York all impose a property tax to fund local government. Municipalities and special districts in all four states are authorized to levy property taxes, and in New York and New Jersey counties and school districts may also do so. All four states tax real property, but only two (Connecticut and Massachusetts) tax personal property. Only Massachusetts requires statewide property classification; New York requires it in jurisdictions with populations of one million or more (i.e., New York City and Nassau County).

Massachusetts, New Jersey, and New York all impose caps on property tax levies, and New Jersey also imposes a cap on local government spending. Connecticut does not impose similar caps, but it does cap the mill rate applicable to motor vehicles.

All of the selected states provide tax relief and incentive programs. These include (1) programs giving preferential treatment to certain land uses, such as farmland; (2) incentives to encourage economic development; and (3) tax relief for qualifying homeowners and renters.

Local governments in three of the states (Connecticut, Massachusetts, and New Jersey) receive the majority of their revenue from property tax. But Connecticut has the greatest reliance on property tax

among the selected states, with property tax comprising 60% of local government revenue. New York has more diverse local government revenue streams due to county-level sales taxes and an income tax in New York City and Yonkers.

Administration and Assessment

Overview

Table 1 provides information on taxing jurisdictions, taxable property, tax assessment, and tax caps in each of the selected states. More details on each state's property classification laws and tax caps follow the table.

Table 1: Administration and Assessment at a Glance in Select States

	Connecticut	Massachusetts	New Jersey	New York
Taxing jurisdictions	Municipalities Special Districts	Municipalities Special Districts	Municipalities Counties School Districts Special Districts	Municipalities Counties School Districts Special Districts
Taxable Property				
Real Property	Yes	Yes	Yes	Yes
Personal property	Yes	Yes	No [1]	No
Motor Vehicles	*Yes*	*No [2]*	*No*	*No*
Machinery & Equipment	*Yes [3]*	*No [4]*	*No*	*No [5]*
Inventory	*No*	*No*	*No*	*No*
Assessment				
Property Classification	No [6]	Yes	No	Yes for jurisdictions with populations above one million; No for rest of state
Different Assessment Ratios	--	*No*	--	*Yes*
Different Rates	--	*Yes*	--	*Yes*
Assessment Ratio	70%	100%	Locally-determined (all counties have chosen 100%)	Locally-determined, but must be uniform[7]
Revaluation	Every 5 years	Every year	Every year	No fixed schedule
Tax Caps				
Levy Cap	No	Yes	Yes	Yes
Spending Cap	No	No	Yes	No
Rate Cap	Yes, on motor vehicles	No	No	No

Source: Lincoln Institute for Land Policy "Significant Features of the Property Tax" database; CCH

[1] Except for certain business personal property owned by petroleum refineries and telephone companies, which is taxable
[2] Unless they are not subject to the annual state registration excise tax
[3] Manufacturing machinery and equipment is generally exempt
[4] Business machinery and equipment is generally subject to a state excise tax on personal property, in lieu of the local property tax
[5] Immovable machinery and equipment is considered real property
[6] State law allows Hartford to assess certain residential property at a rate lower than 70%
[7] Except for New York City and Nassau County

Classification

Property tax classification systems permit local governments to treat particular types of property differently. States with classification systems divide property into different groups based on its use (e.g., commercial and industrial) and then apply different tax rates or assessment ratios to the different classes. Typically, these systems result in a lower tax on residential property than on other property classes.

Massachusetts Classification. Massachusetts law requires assessors to classify real property into four types: residential, open space, commercial, and industrial. Municipalities are permitted to set differential rates for real property classes and personal property. They do so by determining what percentage of the tax levy each property class should bear, subject to statutory limitations, and calculating the respective mill rates (Mass. Gen. Laws. ch 40 § 56).

New York Classification. New York law requires "assessing units" with populations of one million or more (i.e., New York City and Nassau County) to classify property into four categories: (1) one, two, and three-family homes and residential condominiums of three stories or less; (2) apartments, residential cooperatives, and residential condominiums of four stories or more; (3) public utility equipment; and (4) all other property (principally commercial, industrial and vacant property). State law limits how much the assessed value of properties in each class can increase year-to-year and generally requires the total tax levy to be distributed among classes in the same proportion as it was in 1981. Assessors adjust both assessment ratios and tax rates by class of property to put this into effect (N.Y. RPT § 1801 et seq.).

Property Tax Caps

Connecticut. State law caps the mill rate that municipalities may impose on motor vehicles and allows them to impose a different rate on motor vehicles than they do on other property. Currently, the cap is 45 mills (CGS § 12-71e). OLR Report 2020-R-0266 provides more information on the cap.

Massachusetts. Massachusetts's property tax cap, known as Proposition 2 ½, limits the amount of property tax revenue municipalities can raise each year by placing two constraints on the property taxes a municipality can raise (Mass. Gen. Laws Chapter 59, § 21C). Specifically, it (1) caps the total property tax levy at no more than 2.5% of the municipality's total assessed value of all taxable real and personal property and (2) generally limits the annual growth in property tax revenue to no more than 2.5% over the prior year's levy. Municipalities may increase the growth limit if voters approve. For more information, see OLR Report 2017-R-0003.

New Jersey. New Jersey imposes a spending cap on local governments, prohibiting them from increasing their budget appropriations by more than (1) 2.5% over the prior year or (2) the annual cost-of-living adjustment, whichever is less (N.J. Rev. Stat. § 40A:4-45.2). It also imposes a levy cap, prohibiting local governments from increasing their property tax revenue by more than 2% over the prior year, with certain exclusions (N.J. Rev. Stat. § 40A:4-45.44). Both caps can be overridden by referendum.

New York. The New York state constitution caps the total amount that local governments can raise through property taxes at a certain percentage of the five-year average full valuation of taxable real estate. The percentage varies by level of taxing authority and is generally (1) 1.5% for counties, other than those in New York City; (2) 2.5% for New York City; (3) and 2% for cities and villages (N.Y. Const. art.VIII § 10). New York state law generally prohibits local governments and school districts from increasing their tax levy by more than 2% or the rate or inflation, whichever is lower (N.Y. GMU § 3-C; N.Y. EDN § 2023-A). This cap does not apply to New York City or certain city school districts.

Tax Relief and Incentives

Preferential Property Tax Programs

Preferential property tax programs promote preferred land use by reducing the tax burden on qualifying property owners. These programs do so either by (1) assessing the property based on its current use, rather than market value; (2) reducing assessment ratios; or (3) exempting all or some portion of the property from tax. All four states provide preferential tax treatment for agricultural land, forest land, and open or recreation space.

Economic Development Incentives

Economic development incentive programs are intended to encourage private investment by providing property tax relief or other incentives. We discuss a few types of incentive programs below. More details are available from the Lincoln Institute for Land Policy's "Significant Features of the Property Tax" database.

Tax Increment Financing (TIF). TIF funds economic development activities in a designated area by earmarking property tax revenues from anticipated increases in assessed property values resulting from investment in that district. All four states have programs allowing TIF, generally limited to geographic areas meeting certain criteria.

Targeted Area or Industry Investment. All four states provide property exemptions or credits for business investment in certain designated "zones." In Connecticut, the main program is the Enterprise Zone (EZ) program, but other types of zones (e.g., entertainment districts and defense plant zones) fall under the program's umbrella. (OLR Report 2020-R-0252 provides more information on the EZ program.) Other programs include New York's Empire Zones and Banking Development Districts, Massachusetts's Economic Development Incentive Program, and New Jersey's Garden State Growth Zones.

Housing. Connecticut, New York, and Massachusetts authorize several property tax exemption programs to encourage the development of low- or moderate-income housing in certain areas, most of which are local option programs. Massachusetts's workforce housing special tax assessment program, for example, allows municipalities to provide a five-year tax abatement to encourage the development of middle-income housing in designated areas.

Incentives for Specific Property Improvements

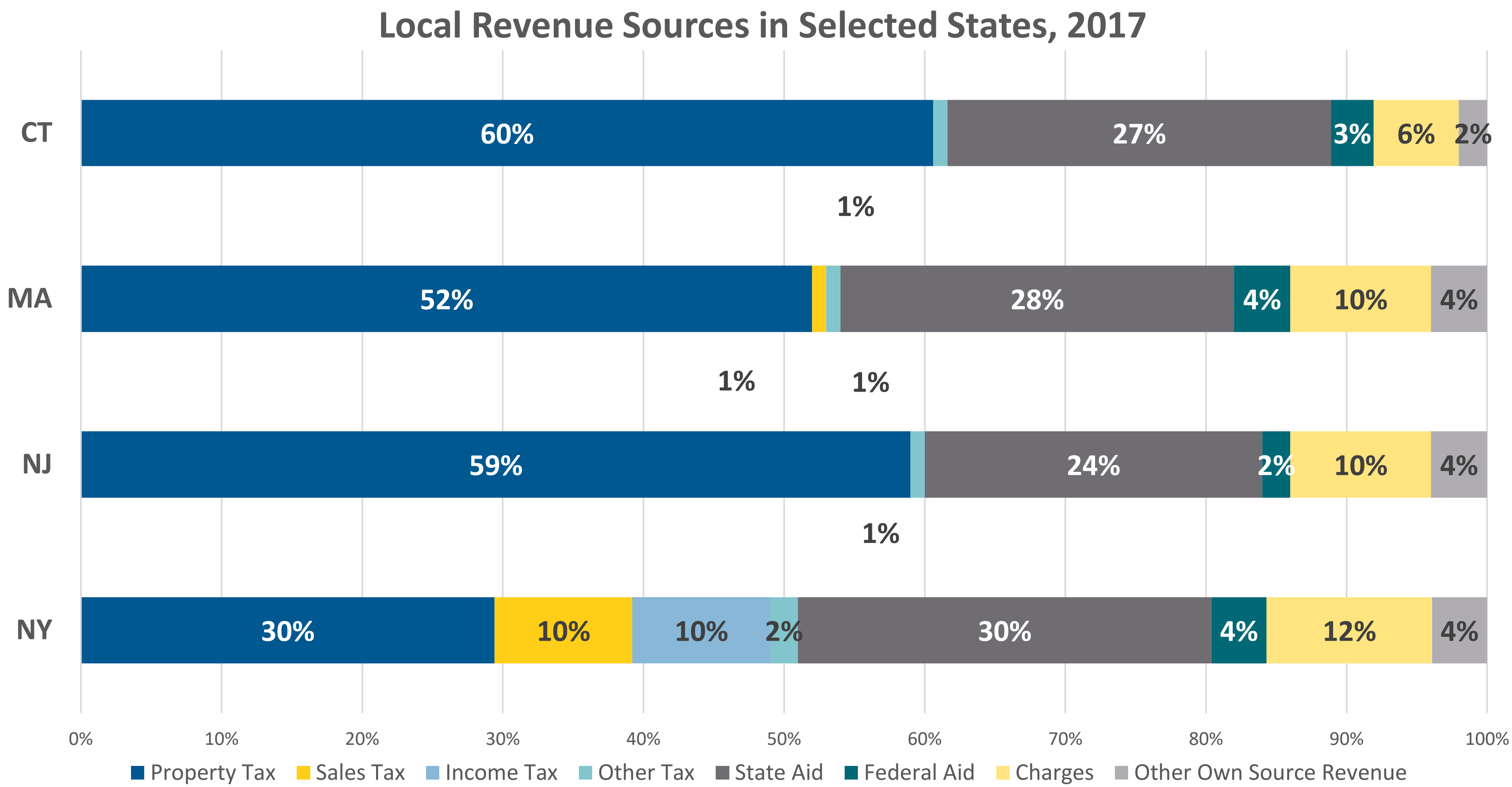
States use tax relief to incentivize property owners to undertake targeted improvements that meet their goals. All four states provide tax credits or exemptions for various pollution control or remediation activities (e.g., brownfields). Massachusetts and New York provide exemptions or assessment reductions for certain improvements to historic property. New York and New Jersey provide exemptions for projects designed to accommodate seniors or people with disabilities.

Residential Property Tax Relief Programs

All the selected states have programs designed to ease the tax burden on homeowners and renters. New York is the only state that has a broad-based tax relief program; its STAR (School Tax Relief) program provides exemptions or credits to most homeowners. The programs offered by the selected states offer are targeted to certain populations. All four states also provide, or authorize local governments to provide, tax credits, rebates, or exemptions to homeowners, and in some cases renters, who are (1) seniors, (2) people with disabilities, or (3) veterans or their surviving spouses. Most of these programs are limited to people with incomes under certain thresholds. Other exemptions include those for (1) first responders (Connecticut, Massachusetts, and New York), (2) those experiencing financial hardship (Massachusetts), and (3) clergy (New York).

Property Tax Reliance

The figure below compares local revenue sources in the selected states for 2017. While local governments in three of the states (Connecticut, Massachusetts, and New Jersey) receive the majority of their revenue from property tax, Connecticut local governments have the greatest reliance on the property tax among the selected states. Local governments in all four states receive similar levels of state aid, with such aid comprising 24-30% of their revenue. New York is the only state in which local governments directly collect sales tax or income tax (only New York City and Yonkers charge an income tax).



Source: Lincoln Institute for Land Policy "Significant Features of the Property Tax" database

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