

PAR

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Governor's Homestead Exemption Proposal a Bad Idea

The governor's proposal to increase the homestead exemption narrowly made it out of the House Ways and Means Committee and awaits House floor action. HB 15 (Alario) proposes a constitutional amendment to raise the homestead exemption from \$7,500 of assessed value to \$10,000. Because homes are assessed at 10% of market value, the exemption would cover a home worth \$100,000 whereas it now covers a \$75,000 home.

To protect local governments from losing any revenues, an amendment to HB 15 would require a millage rollup when the exemption was raised to ensure that tax collections would remain the same. A millage rollup would shift the exempt taxes to the remaining taxable property, including home values over \$100,000, rental property, and business property. Renters, many of whom are lower income families, would likely see some increase in rents as a result. Consumers could also face higher prices for goods and services from businesses who can pass on the added tax.

The homestead exemption currently makes \$4.6 billion (26.9%) of the \$17.1 billion total assessed value of property in Louisiana untaxable except for some municipal purposes. Raising the homestead exemption to \$10,000 would remove another one third of a billion dollars in assessed value from the tax rolls.

The additional \$2,500 exemption would give homes worth between \$75,000 and \$100,000 a property tax break of up to \$275, based on a statewide average millage rate of 110 mills ($\$2,500 \times .110 = \275). The actual amount would vary depending on the local millage rate. The break would be reduced as a home's value rose over \$100,000 because the remaining value would be taxed at a higher rate once millages were rolled up.

PAR estimates the total value of the proposed tax cuts at roughly \$38 million statewide (other estimates run up to \$47 million). This would require a three percent to four percent rollup in millages statewide. Parishes with few high-value homes would be less affected, however in "bedroom" parishes

such as Jefferson, Livingston and St. Tammany, the increase could be closer to 10%.

A portion of those taxes shifted to businesses by an increased homestead exemption would be levied against business inventory. The state would ultimately pick up this added cost through the inventory tax credit.

Louisiana now has, by far, the most liberal homestead exemption in the nation. The value of the exemption is nearly double that of the closest runner up. Most states do not provide general exemptions for all homeowners. Some, however, limit exemptions to low income families, seniors or the disabled.

Currently, 80% of all owner-occupied homes in Louisiana are fully covered by the homestead exemption. This means that 80% of the homeowners pay no property tax other than municipal millages which are typically very low. Data is not available to show how much tax is actually paid on the non-exempt portion of home values. However, rough estimates indicate that it is less than 10% of the total property taxes collected statewide.

Proponents Arguments

Proponents of the bill argue variously that (1) it is needed to offset inflation, (2) taxes should not increase due to inflation, (3) it is important to help people buy and keep homes and (4) the property tax is an unfair tax.

The inflation argument fails to recognize that homeowner income, even from social security, also has risen with inflation. The cost of government services are also affected by inflation and a tax base which does not keep up with inflation is generally considered inadequate. Furthermore, it is unlikely that a \$275 tax break would be the deciding factor in purchasing a \$100,000 home.

PAR Position

This proposal would further reduce the local property tax base, hamper efforts to fund schools and other local services, and shift taxes to renters and businesses.

Testifying before the House committee, the governor argued the increase was needed because the property tax is an "unfair" tax. If it is unfair, homeowners are hardly the ones being treated unfairly.

In his budget message, the governor criticized local efforts to fund education noting that "we still rank much lower in local financial participation than in state financial participation nationwide." It is difficult to see how local participation would be encouraged by cutting the tax base and placing a greater burden on the remaining taxable property.

If the governor and Legislature do not wish to lower the homestead exemption, they should at least leave it alone. That way, over time, more homeowners would gradually begin paying property taxes to help support schools and other local services which benefit their homes.

PAR has long advocated replacing the homestead exemption with an income-based circuit breaker or reducing the exemption, particularly for school millages because:

- The property tax is under-used.
- Property taxes are deductible for federal income tax purposes.
- Property taxes fund services which directly benefit families and protect home values.
- Communities with little business or industry cannot fund desired services without levying very high millages on the remaining taxable property.
- People who pay property taxes have an incentive to take a more active role in school and other local policy issues.

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