

## FAQs: COMMON FEATURES OF PROPERTY TAXES

### Issue Summary

In FY 2015, Connecticut ranked third among states in property tax burden per-capita and had the eighth-highest property tax rate as a percentage of owner-occupied housing value. In the same year, property taxes accounted for 38 percent of total state and local revenues in Connecticut.<sup>1</sup> Connecticut does not employ many common property tax features such as a split roll tax, homestead tax exemption, a meaningful property tax circuit breaker, or an assessment schedule that ensures accurate grand list valuations.<sup>2</sup>

### Q: What types of government can tax property?

**A:** In Connecticut, municipalities have sole authority to tax real and personal property. However, in many other states, other government entities have taxing authority. Most states collect property taxes through a county government system. In addition, many states allow school districts to levy property taxes independently, and in some states the state government also collects a property tax.<sup>3</sup>

### Q: What is an assessment rate?

**A:** The first step in a property tax system is to assess the value of each piece of property within a taxing authority. However, in many states, property is assessed at a rate that is a percentage of market value. This practice is a type of property tax exemption, which has the effect of lowering the effective tax rate. In some states, the assessment rate is set at the state-level, while in others the power to set assessment rates lies with the government entity levying the property taxes.<sup>4</sup> Currently, Connecticut General Statutes prohibit assessing different property types at different assessment rates or tax rates.<sup>5,6</sup> Municipalities in Connecticut must assess all property types at a uniform rate of 70 percent<sup>7</sup> of real property value.<sup>8</sup>

### Q: What is a taxation rate? How is this different than a mill rate?

**A:** Taxation rates are expressed as a percentage of the assessed value of the property, or as a mill rate. A mill rate is the amount of money taxed per \$1,000 of assessed property value. Therefore, a mill rate of 20 means a taxpayer will pay \$20 for every \$1,000 of taxable property.<sup>9</sup> In Connecticut, property tax rates, known as mill rates, are set by municipalities. There are no limits or restrictions on towns' authority to set mill rates on taxable personal property, as defined in state statute.<sup>10</sup>

### Q: What is a grand list?

**A:** The total amount of taxable property, at assessment value, within a taxing authority is often known as the grand list. Generally, a taxing authority sets a budget, then determines the total amount of property tax revenue necessary to provide budgeted services and sets a taxation rate that will garner the required revenue based on the authority's assessed grand list. The larger the value of a community's grand list, the lower a taxation rate the taxing authority needs to set in order to collect sufficient revenue.<sup>11</sup>

### Q: What is an assessment schedule?

**A:** Property tax assessment schedules refer to the number of years between property tax valuations by a taxing authority, where properties are assessed based on changes in market conditions.<sup>12</sup> Assessment schedules vary from state to state. Some states perform revaluations annually, while some states only require revaluation every five years. Optimally, tax rolls are accurate, up-to-date, and based on actual market conditions.<sup>13</sup>

### Q: What is a split roll tax?

**A:** Some states tax property types at different tax rates. This is called a "split roll" tax. Generally, split roll taxes refer to certain types of property being taxed at lower effective rates than other types of property. Split roll taxes are usually implemented in order to reduce the tax burden on homeowners by taxing owner-occupied homes at lower rates than commercial property.<sup>14</sup> Connecticut does not employ a split roll tax.<sup>15</sup>

### Q: What is a property tax exemption?

**A:** A property tax exemption is a form of tax relief that shields a portion of property value from taxation. This occurs prior to the levying of tax rates, which are excluded from this form of relief, and all property is taxed at

the same rate whether the property owner qualifies for the exemption or not.<sup>16</sup> Connecticut exempts certain property types, such as property belonging to nonprofit entities, from taxation.<sup>17</sup>

### **Q: What is a homestead exemption?**

**A:** A homestead exemption, is primarily directed at owner-occupied homes that are a taxpayer's primary residence (also known as a "homestead"). Twenty-three states plus the District of Columbia utilize some type of homestead property tax exemption.<sup>18</sup> Connecticut does not have a homestead tax exemption, or any other property tax exemption that is applied to individual property holders.<sup>19</sup>

### **Q: What is a property tax circuit breaker?**

**A:** A circuit breaker is one form of property tax relief among other forms, such as assessment freezes, credits, deferrals, and exemptions.<sup>20</sup> A circuit breaker program is a method for reversing the regressive nature of the property tax by giving some amount of tax relief to a specific population of property owners, such as those below an income threshold or a combined property tax and income measure. Connecticut employs a single circuit breaker program, which entitles elderly and permanently disabled people to a property tax reduction, or rent rebate for renters in the same income brackets, if their individual income is less than \$23,600.<sup>21</sup>

### **Q: What is a property deferral?**

**A:** Some states allow for individual taxpayers, who meet certain qualifications, to defer their tax payments for a limited period if they become unable to pay — often due to economic hardship or disability — until they are able to sell the property. When the property is sold, the tax loan is paid from the revenue of the sale, or from the estate of the homeowner if the homeowner dies.<sup>22</sup> Connecticut does not currently offer property tax deferrals.<sup>23</sup>

### **Q: How are property tax incentives used to spur economic development?**

**A:** All states, including Connecticut, provide tax incentives to promote business development. Of these tax incentives, some are directly related to real property and associated development and improvements, while other incentives are intended to assist businesses with expanding capacity, which can include investment in personal property. Certain tax incentives are specifically targeted toward mitigating tax costs associated with personal property investments, while others are in the form of preferential treatment for certain types of real commercial property.<sup>24</sup>

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<sup>1</sup> Tax Foundation. (2018). *Facts & Figures: How Does Your State Compare?* Washington, DC: Author. Retrieved from <https://files.taxfoundation.org/20180411102900/Facts-Figures-2018-How-Does-Your-State-Compare.pdf>.

<sup>2</sup> Bell, M.E. (2015). *Overview of Property Taxes in Connecticut: Discussion Draft*. Hartford, CT: Connecticut General Assembly, Connecticut Tax Study Panel. Retrieved from [https://www.cga.ct.gov/fin/ffs%5C20140929\\_State%20Tax%20Panel%5C20151027/CT%20Property%20Tax%20Primer%20Bell.%20Draft.pdf](https://www.cga.ct.gov/fin/ffs%5C20140929_State%20Tax%20Panel%5C20151027/CT%20Property%20Tax%20Primer%20Bell.%20Draft.pdf).

<sup>3</sup> U.S. Census Bureau. (n.d.). Lists & Structure of Governments: Population of Interest. Retrieved from [https://www.census.gov/govs/go/population\\_of\\_interest.html](https://www.census.gov/govs/go/population_of_interest.html).

<sup>4</sup> Lincoln Institute of Land Policy, & Minnesota Center for Fiscal Excellence. (2017). *50-State Property Tax Comparison Study for Taxes Paid in 2016*. Cambridge, MA: Authors. Retrieved from <https://www.lincolinst.edu/sites/default/files/pubfiles/50-state-property-tax-comparison-for-2016-full.pdf>.

<sup>5</sup> Conn. Gen. Statutes ch. 203, § 12-62a.

<sup>6</sup> Conn. Gen. Statutes ch. 203, § 12-64.

<sup>7</sup> Conn. Gen. Statutes ch. 203, § 12-62a.

<sup>8</sup> Conn. Gen. Statutes ch. 203, § 12-63.

<sup>9</sup> Lincoln Institute of Land Policy, & George Washington Institute of Public Policy. (n.d.). Significant Features of the Property Tax: Property Tax Rates. Retrieved from [http://datatoolkits.lincolinst.edu/subcenters/significant-features-property-tax/Report\\_Property\\_Tax\\_Rates.aspx](http://datatoolkits.lincolinst.edu/subcenters/significant-features-property-tax/Report_Property_Tax_Rates.aspx).

<sup>10</sup> Bell, M.E. (2015). *Overview of Property Taxes in Connecticut: Discussion Draft*. Hartford, CT: Connecticut General Assembly, Connecticut Tax Study Panel. Retrieved from [https://www.cga.ct.gov/fin/ffs%5C20140929\\_State%20Tax%20Panel%5C20151027/CT%20Property%20Tax%20Primer%20Bell.%20Draft.pdf](https://www.cga.ct.gov/fin/ffs%5C20140929_State%20Tax%20Panel%5C20151027/CT%20Property%20Tax%20Primer%20Bell.%20Draft.pdf).

<sup>11</sup> *Ibid.*

<sup>12</sup> Rosengard, J.K. (2012). *The Tax Everyone Loves to Hate: Principles of Property Tax Reform*. Cambridge, MA: Harvard University, John F. Kennedy School, Mossavar-Rahmani Center for Business and Government. Retrieved from [https://www.hks.harvard.edu/sites/default/files/centers/mrcbg/files/MRCBG\\_FWP\\_2012\\_10-2012\\_Rosengard\\_Tax\\_Reform.pdf](https://www.hks.harvard.edu/sites/default/files/centers/mrcbg/files/MRCBG_FWP_2012_10-2012_Rosengard_Tax_Reform.pdf).

<sup>13</sup> *Ibid.*

<sup>14</sup> Institute on Taxation and Economic Policy. (2011). *Split Roll Property Taxes*. Washington, DC: Author. Retrieved from <https://itep.org/wp-content/uploads/pb22split.pdf>.

<sup>15</sup> Bell, M.E. (2015). *Overview of Property Taxes in Connecticut: Discussion Draft*. Hartford, CT: Connecticut General Assembly, Connecticut Tax Study Panel. Retrieved from [https://www.cga.ct.gov/fin/ffs%5C20140929\\_State%20Tax%20Panel%5C20151027/CT%20Property%20Tax%20Primer%20Bell.%20Draft.pdf](https://www.cga.ct.gov/fin/ffs%5C20140929_State%20Tax%20Panel%5C20151027/CT%20Property%20Tax%20Primer%20Bell.%20Draft.pdf).

<sup>16</sup> Lincoln Institute of Land Policy, & George Washington Institute of Public Policy. (n.d.). Significant Features of the Property Tax: Residential Property Tax Relief Programs. Retrieved from [http://datatoolkits.lincolinst.edu/subcenters/significant-features-property-tax/Report\\_Residential\\_Property\\_Tax\\_Relief\\_Programs.aspx](http://datatoolkits.lincolinst.edu/subcenters/significant-features-property-tax/Report_Residential_Property_Tax_Relief_Programs.aspx).

<sup>17</sup> Bell, M.E. (2015). *Overview of Property Taxes in Connecticut: Discussion Draft*. Hartford, CT: Connecticut General Assembly, Connecticut Tax Study Panel. Retrieved from [https://www.cga.ct.gov/fin/ffs%5C20140929\\_State%20Tax%20Panel%5C20151027/CT%20Property%20Tax%20Primer%20Bell.%20Draft.pdf](https://www.cga.ct.gov/fin/ffs%5C20140929_State%20Tax%20Panel%5C20151027/CT%20Property%20Tax%20Primer%20Bell.%20Draft.pdf).

<sup>18</sup> Lincoln Institute of Land Policy, & George Washington Institute of Public Policy. (n.d.). Significant Features of the Property Tax: Residential Property Tax Relief Programs. Retrieved from [http://datatoolkits.lincolinst.edu/subcenters/significant-features-property-tax/Report\\_Residential\\_Property\\_Tax\\_Relief\\_Programs.aspx](http://datatoolkits.lincolinst.edu/subcenters/significant-features-property-tax/Report_Residential_Property_Tax_Relief_Programs.aspx).

<sup>19</sup> Bell, M.E. (2015). *Overview of Property Taxes in Connecticut: Discussion Draft*. Hartford, CT: Connecticut General Assembly, Connecticut Tax Study Panel. Retrieved from [https://www.cga.ct.gov/fin/ffs%5C20140929\\_State%20Tax%20Panel%5C20151027/CT%20Property%20Tax%20Primer%20Bell.%20Draft.pdf](https://www.cga.ct.gov/fin/ffs%5C20140929_State%20Tax%20Panel%5C20151027/CT%20Property%20Tax%20Primer%20Bell.%20Draft.pdf).

<sup>20</sup> *Ibid.*

<sup>21</sup> Conn. Gen. Statutes ch. 204, § 12-170aa.

<sup>22</sup> Munnell, A.H., Belbase, A., Hou, W., & Walters, A. (2017, November). *Property Tax Deferral: A Proposal to Help Massachusetts' Seniors* (Issue Brief No. 17-19). Chestnut Hill, MA: Center for Retirement Research at Boston College. Retrieved from [http://crr.bc.edu/wp-content/uploads/2017/11/IB\\_17-19.pdf](http://crr.bc.edu/wp-content/uploads/2017/11/IB_17-19.pdf).

<sup>23</sup> Bell, M.E. (2015). *Overview of Property Taxes in Connecticut: Discussion Draft*. Hartford, CT: Connecticut General Assembly, Connecticut Tax Study Panel. Retrieved from [https://www.cga.ct.gov/fin/ffs%5C20140929\\_State%20Tax%20Panel%5C20151027/CT%20Property%20Tax%20Primer%20Bell.%20Draft.pdf](https://www.cga.ct.gov/fin/ffs%5C20140929_State%20Tax%20Panel%5C20151027/CT%20Property%20Tax%20Primer%20Bell.%20Draft.pdf).

<sup>24</sup> U.S. Department of Commerce, International Trade Administration. (n.d.). Select USA: Programs and Incentives. Retrieved from <https://www.selectusa.gov/programs-and-incentives>.

<sup>24</sup> Tax Foundation. (2017). *Facts & Figures: How Does Your State Compare?* Washington, DC: Author. Retrieved from <https://files.taxfoundation.org/20170710170127/TF-Facts-Figures-2017-7-10-2017.pdf>.