



County Tax Exemption Coming to an End?

Since 2003, Allegheny County has offered a homestead exclusion that reduces the assessed value of owner-occupied residences by \$15,000. Under the exclusion, an owner living in a home that qualifies for the exclusion can have the assessed value of the property reduced by that flat dollar amount for purposes of determining the amount of County property taxes owed. Of late, with large impending budgetary problems developing, some members of County Council have raised the possibility of ending the homestead exemption.

Local governments are permitted to offer a homestead exclusion under the provisions of a 1997 Constitutional amendment. The County would be free to reduce or eliminate the exclusion as it sees fit. In fact, the present \$15,000 exclusion came about when County Council amended an earlier ordinance which allowed for a \$10,000 exclusion. Under state law taxing bodies are allowed to offer an exclusion that amounts to one-half of the median value of a homestead in the specific jurisdiction. The U.S. Census shows that the median value for Allegheny County currently is \$110,000, meaning the County could legally offer an exclusion of up to \$55,000.

The 2012 budget projections show the homestead exemption will cost the County \$21 million in tax revenue with actual collection estimated to be \$273 million. Thus, elimination of the exemption would boost revenue to \$294 million. That's the aggregate, big picture. At the micro level there are important public policy implications involving the impact of changing the exemption on individual home owners.

First, since the exclusion is a flat-dollar amount, the \$15,000 assessment reduction obviously benefits owners of less valuable homes relatively more than owners of expensive homes. Taking \$71 (the amount obtained by multiplying 4.69 mills times \$15,000) off of a \$200 County tax bill for a low income owner has a larger impact than taking \$71 off a \$2000 tax bill. Thus, ending or reducing the exclusion would be a modestly regressive action. The incoming Executive noted "if you get rid of the homestead exemption, then you're raising taxes on the people who can least afford it."

Second, a reduction in millage is superior to homestead exclusions from the perspective of uniformity of tax burdens since owners of rental residential properties and non-residential properties do not qualify for the exemption. But if the County is interested in providing targeted relief to homeowners it can be accomplished through the homestead exclusion.

Allegheny County Taxes with Various Homestead Exclusions

Assessed Value	County Taxes, No Exclusion	County Taxes with \$5,000 Exclusion (\$23 in savings)	County Taxes with \$10,000 Exclusion (\$46 in savings)	County Taxes with \$15,000 Exclusion (\$71 in savings)	County Taxes with \$20,000 Exclusion (\$94 in savings)
\$50,000	\$234	\$211	\$188	\$163	\$141
\$100,000	\$469	\$445	\$422	\$398	\$375
\$200,000	\$938	\$915	\$891	\$867	\$844
\$500,000	\$2,345	\$2,321	\$2,298	\$2,274	\$2,251

Third, a reduction or elimination of the homestead exemption will almost certainly create considerable added confusion to taxpayers at a time when new assessment values are being assigned to properties. Beyond the concerns about the confusion eliminating the exemption will create, it is generally not good policy to provide a tax reducing benefit and then a few years later take it away.

Here’s the bottom line for the County. With the reassessment state law requires the County to calculate a new millage rate that will hold property tax revenue at the 2011 level. After that, the County is allowed to vote separately on a new, higher millage rate that will raise revenue by no more than five percent. A vote, by the way, that will require two thirds—10 members—of the Council to vote for the tax hike. In short, the County is not allowed to garner a windfall of more than five percent as a result of a reassessment. To raise taxes by an amount greater than the five percent will require the approval of a Common Pleas judge.

A five percent windfall over 2011 collections would amount to between \$13 million and \$14 million. Eliminating the homestead exemption will bring in about \$21 million, more or less depending on whether the final millage rate determined under the provision limiting the County to a five percent windfall is higher or lower than the current 4.69 mills. All told, the reassessment and eliminating the exemption could net the County about \$35 million more in property tax revenue in 2012. In any event, a judge being asked to allow a millage rate hike that would raise the tax rate beyond the level that meets the five percent windfall limit would almost certainly take into account the County’s decision to eliminate the homestead exemption if it chooses to go that route.

One thing is certain, as far as the property tax situation in Allegheny County is concerned, the next few months are going to bring a lot of confusion and consternation for taxpayers as Council grapples with all the changes being contemplated for 2012.

Eric Montarti, Senior Policy Analyst

Jake Haulk, Ph.D., President

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<p>Allegheny Institute for Public Policy 305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234 Phone (412) 440-0079 * Fax (412) 440-0085 E-mail: aipp@alleghenyinstitute.org</p>
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