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Are Property Taxes Too High? Too High, As Compared to What?

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ARE PROPERTY TAXES TOO HIGH?
TOO HIGH, AS COMPARED TO WHAT?

In the five-year period from 1971 to 1976, property taxes in South Dakota rose 37 percent, with an average annual increase of 6.6 percent. By classes, the changes were:

- Agricultural real property + 21%
- Agricultural personal property + 22%
- Non-Ag real property + 51%
- Non-Ag personal property + 51%

Deflating these current-dollar amounts by the National Consumer Price Index, we find that Ag real property taxes fell by 13.5 percent; Ag personal property taxes fell by 13.0 percent and there were increases of 7 percent in non-ag real property and 7 percent in non-ag personal property. Overall however, there was a decrease of 1 percent on the deflated basis.

It would appear, then, that local units of government were not having fewer budget problems with the increased number of tax dollars available. In terms of purchasing power, the income to local governments has remained rather constant over the period.

Data are not available on how much of the increase in taxes was due to additions to the tax base during the period. Personal property evaluations fluctuate with additions to, or sell-down of, livestock, farm machinery, commercial enterprise inventories and changes in the numbers of households. The smallest additions to the tax base are in the ag real property classification. In some counties there might even be a decrease in the size of the tax base as urban expansion has converted some land to non-agricultural uses.

The changes in the distribution of the property tax burden is shown in the following charts.

There have been some apparent shifts, with non-ag property picking up a somewhat greater proportion of the total.

Incomes are a good indicator of the ability to pay taxes. During the period of 1971-1976, personal incomes in South Dakota rose by over 64 percent. Even deflated, they were up nearly 11 percent. By major sources, incomes from wages and salaries were up 65 percent (in current dollars); farm proprietors incomes were down 12 percent and non-farm proprietors incomes were up about 92 percent. It might be noted that 1976 was a drought year for agriculture. During this period farm income fluctuated from $421 million in 1971 to a record high of $1,008 million in 1973 and then back to the lowest figure since 1964 of $202 million.

During the time period being considered, the average market value of farm real estate rose from $85 per acre
in 1971 to $164 in 1976; an increase of 96 percent. Comparable data are not available on non-ag real property values. However, values are not necessarily a good indicator of ability to pay taxes.

Are property taxes too high? If you are a public official charged with the responsibility of maintaining a level and quality of public services supported by property taxes, you might conclude that the tax payments are not too high. Non-farm proprietors and most wage earners paid a smaller percentage of their earnings in property taxes in 1976 than in 1971, even though their taxes did increase. As a farmer, the tax bite in 1976 might be considered particularly burdensome in relation to income, primarily as a result of drought and market conditions. Persons living on fixed incomes undoubtedly paid a larger proportion of their income in property taxes in 1976.

As individual taxpayers, we tend to compare our tax bill to last year’s or some earlier period. If the current tax bill is higher, which is often the case, we tend to conclude that our taxes are too high. It is important, however, to also consider changes in public demands for services, the cost of those services, and ability to pay for them in relation to changes in income. Perhaps better questions might be: "Is our present system of collecting revenue for the support of local public services fair?" and "Are our public services adequately meeting the needs of our citizens?"

This brief review has considered only one aspect of a tax system.

Three elements must be considered when studying public finance: the tax base, the tax system and the services supported. The tax base and the supported services are constantly changing while the taxing system is relatively inflexible. A tax system designed to fairly and adequately raise the needed revenue to support public services of an earlier time might be both unfair and inadequate today.

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