

# When do Property Taxes Matter? Tax Salience and Heterogeneous Policy Effects

By

Marina Gindelsky, Jeremy Moulton,  
Kelly Wentland, Scott Wentland

Discussion: Chris Cunningham  
Federal Reserve Bank Atlanta\*

\*All views expressed are my own and do not reflect those of the federal reserve.

# Taxes should matter

- Rational, local voters should maximize the service-tax-package (how can the median voter select the optimal levels of spending against taxation)
- Tiebout (1956) voters sort themselves by taste for the level/mix of public goods
- How can households vote with their feet if they don't know the cost of public goods?

# Summary

- Match self-reported property taxes to actual property taxes from Assessors Office (Zillow)
- Find Absolute, and Raw Error by:
  - Mortgage type
  - race, education, age
- Compare existing capitalization literature based on whether a paper finds full capitalization to individual states' rate of misperception?

# Findings

- The average absolute error for single-family households is 15%
- Households with mortgages that also cover taxes have greatest error. Households with mortgages that do cover taxes have smallest
- Tax accuracy increase with age, modestly with education and home value. Varies by race
- Studies in states with more tax misperception less likely to find full capitalization

# Things I wonder about

- Extensive “pruning” of the data -ACS 3.5 households/year x 13 YRS to 400K observations matched to Zillow
- If this is to disavow measurement error, I want even more (the county mismatch gives me pause): exact match on bedrooms, survey/assessment year
- If this about the median voter I think we want more observations
- In any case, we probably show how the sample changes over time

# Things I wonder about

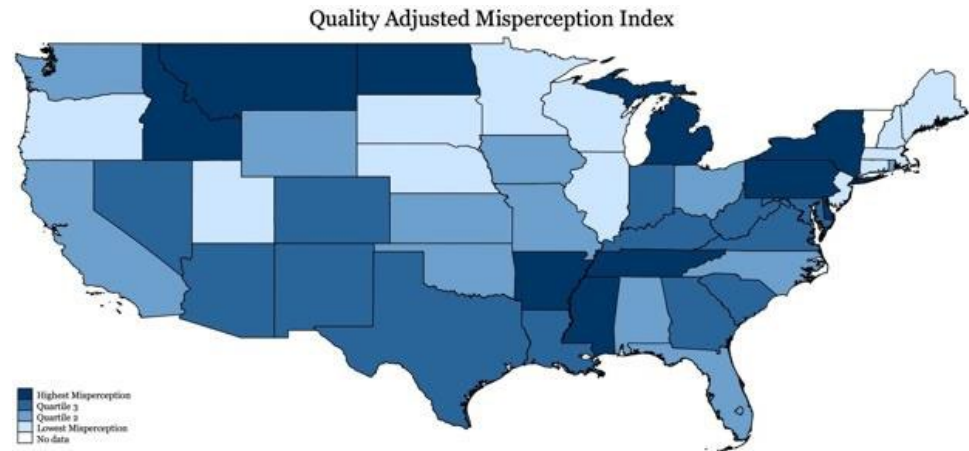
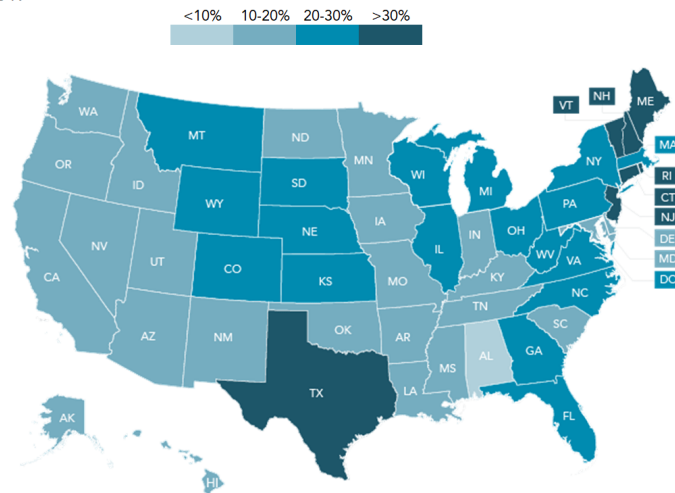
- Extensive “pruning” of the data -ACS 3.5 households/year x 13 YRS to 400K observations matched to Zillow
- If this is to disavow measurement error, I want even more (the county mismatch gives me pause): exact match on bedrooms, survey/assessment year
- If this about the median voter I think we want more observations
- In any case, we probably show how the sample changes over time

# Why do some people/states have more error?

- Is tax accuracy related to tax preference?
  - Do I pay more

FIGURE 1

Property Tax Revenue as a Percentage of State and Local Own-Source General Revenue  
2017



Source: Urban-Brookings Tax Policy Center, State & Local Government Finance Data.

Note: Own general revenue does not include intergovernmental transfers.

# Aren't these capitalization Studies Based Partly on Assessor Error?

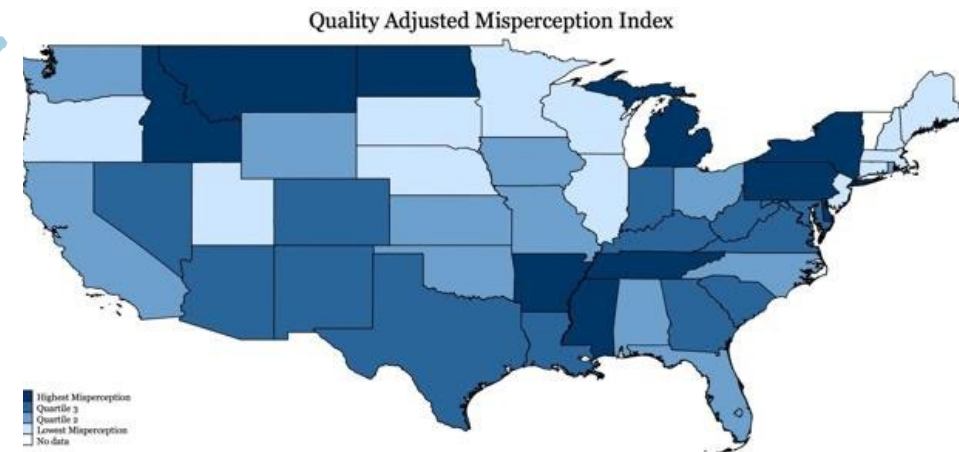
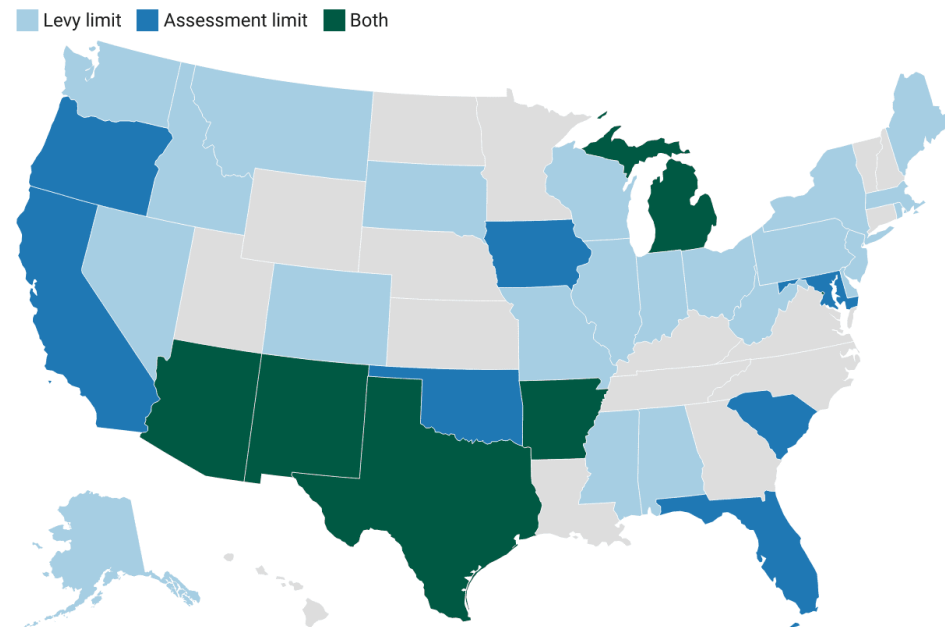
- Property taxes pay for public goods that people value. Property taxes should get capitalized when:
  - A particular property is assessed (relatively) below market value
  - When the marginal buyer doesn't value the services provided
- What if places with more volatile assessments have more misperception?
  - I may not capitalize my favorable assessment if I expect to change next year



# Why do some states have more error?

- $\text{Tax} = t * \text{assessed value}$
- Rational inattention?
- vs low variability?

## 34 States Put Some Limits on Property Tax Growth



Data does not include states where levy/assessment limits are a local option or only in certain counties. Some