



ISSUE BRIEF

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What is “Property Tax Relief?”

The recent low-profile passage of the local option sales tax in Dallas County, effective on July 1, 2018, will leave Polk and Johnson as the only counties in Iowa that do not levy the extra one cent.

The time has come for Polk County, as well, to place the issue before voters. It will likely happen in a few months, in March of 2018. Each city will have its own language relating to how the proceeds will be spent.

Iowa law requires local jurisdictions to specify on the ballot what portion of the sales tax revenues will be used for “property tax relief.” As was the case in Dallas County, most cities in Polk County will propose to dedicate one-half of the proceeds to property tax relief. This could be a good thing for property taxpayers. In Des Moines, especially, property taxes are currently high enough to make the city a true outlier in comparison with the largest cities in other states. Relief is certainly needed.

The penny sales tax is paid by both by residents and nonresidents—in some cases up to 40 percent by nonresidents—so local communities do not shoulder all of the burden. If half is rebated to property taxpayers, it’s a way for cities to get a lot more revenue while minimizing the impact on local residents. We are already doing the reverse –paying the tax to benefit the communities in 97 other counties when we visit them.

A plan that dedicates half of the proceeds to property tax relief coupled with half to infrastructure is even better for property taxpayers. Many cities either have a large backlog of capital project or growth needs that outpace revenue. If the local option sales tax can replace some borrowing, the total cost of the projects will be lower.

Property Tax Relief? Reduction? Or Stabilization?

But what exactly is “property tax relief?” The devil is truly in the details. To be meaningful, property tax relief needs a clear definition.

A city promising 50 percent to property tax relief and 50 percent to infrastructure could use all of the sales tax revenue infrastructure, then argue that one-half was for property tax relief because property taxes would otherwise have gone up. This would meet the legal definition of “relief,” but taxpayers would see no reduction in their tax bills.

If taxpayers are promised tax relief, they will no doubt expect a reduction in their tax bill. To assure tax relief, the Taxpayers Association of Central Iowa is asking communities to include the following language on the ballot or in a resolution to define how the city intends to operationalize property tax relief (50 percent in this example):

“Fifty percent for property tax relief means that 50 percent of the local option sales tax revenue collected in fiscal year 2019 shall be used to reduce the fiscal year 2020 overall property tax levy from where it stood in the prior fiscal year. Thereafter, at least 50 percent of the proceeds of the local option sales tax each year shall continue to be used to sustain the rate reduction established in the initial year. The rate reduction shall first be applied to reduce employee benefit levies, if applicable, then to debt service levy, if applicable, before being applied to other levies.”

Citizens should also ask their cities to be clear about intent. Any property tax relief that is specified on the ballot should be limited to what the city plans to dedicate to actual tax rate reduction. If a city is planning to use another share of the proceeds to prevent a property tax increase, it is better characterized as property tax “stabilization.” It is important to distinguish between the two.

The Taxpayers Association of Central Iowa is prepared to support local option sales tax referenda in Polk County if it is clear that property taxpayers will experience a real reduction, not just a hollow promise, when “property tax relief” is promised.