

Erosion of Property Tax Base in Kansas

Findings

- **The Kansas property tax is evolving into a real estate tax, and residential real estate is becoming a more important part of taxable real estate.** Real estate made up 44 percent of the total ad valorem base in 1988 and 65 percent in 2005. Residential real estate made up 22 percent in 1988 and 40 in 2005. (Chart 3)
- **The original constitutional exemptions of property used for educational, governmental, religious and similar purposes have been clarified and expanded by statute and total \$20 billion, but now are smaller, in relation to all taxable property, than they were fifteen years ago.** In 1989, the real estate exempted under this provision equaled 20 percent of the value of taxable property but by 2005 had declined to 15 percent.
- **Beginning in the 1970s, the exemption of personal property, especially business and agricultural property, has accelerated.** Most exempt personal property is neither listed nor appraised, but the number of exemptions has risen greatly. (Chart 1)
- **Local option exemption of real and personal property deemed important for economic development is common in Kansas.** In 2005, \$3.4 billion in appraised value, two percent of total appraised value, was exempted by cities and counties as IRB property or under the constitutional provision allowing exemption of certain property for economic development. Since 1993, total economic development exemptions have fluctuated from a low of 1.5 percent of the appraised value to a high of 2.8 percent.
- **The assessment of locally assessed real estate, the fastest growing category of property, is closely monitored by the state and is appraised close to market value.** In 2005, the statewide ratio of appraised value to sale price was 96 percent. (Chart 6)
- **State assessed utility property values are not subject to sales-ratio studies nor auditing by outside firms, and appraised value of this property is growing less rapidly than locally assessed real estate.** In 1988, public utility property made up 18 percent of assessed value, but dropped to 16 percent after the 1992 constitutional amendment and has since declined to 10 percent. (Chart 3)
- **The value of vehicles appraised by the statutory formula is close to that which would be produced by market-value appraisal, but the phase-in of a reduced assessment ratio in the 1990s resulted in a \$1.5 billion reduction in assessed value.** Current motor vehicles make up 11 percent of assessed value, as compared with 14 percent in 1988.
- **Use-value appraisal of agricultural land has resulted in appraised value far below market value.** Statewide, agricultural land was sold at a median of 12 percent of use-value assessment. In some large counties, agricultural lands sell for more than one-

hundred times their use-value appraisal. Detailed, county-by-county analyses have not been made, but much of the benefit of use-value appraisal does not go to those continuing in the farming business. Residential property owners in most agricultural counties pay much higher taxes as the result of use-value assessment.

- **County appraisers report “abuse” or difficulty caused by exemptions of farm equipment, neighborhood revitalization property, and industrial property.** Taxpayers often claim agricultural exemption on equipment that is used largely for uses other than agriculture. Exemption for repairs and additions to complex industrial properties are often granted at several different times for the same building. Neighborhood revitalization property is not exempt, but taxes on the incremental increase in value are earmarked for uses that benefit the property owner by cash refund or repayment of bonds. Keeping track of these many increments and property owners greatly complicates the appraiser’s job.

Policy Choices

The property tax began as a simple tax on all wealth. Since it was adopted in Kansas in the mid-1800s, statutory and constitutional changes have transformed it into a tax that is largely a real estate tax supplemented by a tax on utility property and motor vehicles, both of which are declining in relative importance. In view of the importance of the property tax as a source of local government revenue, Kansas faces painful choices. Among the possible policies are the following.

- **Continue on the current path.** This choice will undoubtedly make financing local government more difficult and will raise the burden on residential property. This choice may eventually spark a taxpayer revolt that could lead to the kind of arbitrary tax or expenditure limitations that have hampered the provision of government services in California and many other states.
- **“Clean up” the property tax laws and develop rational policy for exemptions and then examine all present and proposed exemptions in light of the policy.** This approach has severe limitations since some needed changes would likely require constitutional amendments and any attempt to repeal existing statutory or constitutional exemptions would meet fierce opposition.
- **Return toward “uniform and equal.”** Drafting and passing such an amendment would require the agreement of major interest groups and might require a commission or some kind of “mini”constitutional convention.
- **Repeal all taxes on personal property and reconfigure local government and government functions so that local governments finance only property-related services from the property tax.** For example, social services now funded with local property taxes would have to be financed by state revenues or other revenue sources.
- **Authorize local government broader access to sales and income taxes.** This choice might be done by consolidating small governments or by creating taxing districts that could more effectively levy income or sales taxes. More governmental functions, for example, schools, could be shifted to the state level.