Analyzing Property Tax Exemptions

It is relatively common for municipalities to have **exemptions** for property tax. Exemptions apply to the assessed value of a property. Here are some typical (full or partial) exemptions.

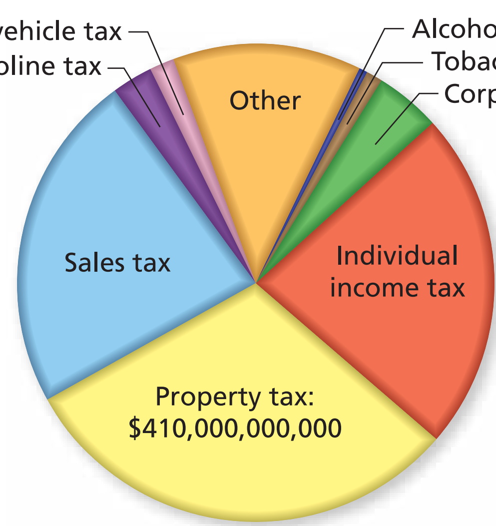
- Homeowners who are 65 or older
- Homeowners with limited incomes
- Homeowners on full-time disability
- Homeowners who are veterans
- Homeowners who are in the clergy
- Property owned by government agencies
- Property owned by schools
- Property owned by religious organizations
- Property owned by nonprofit organizations

EXAMPLE 5 Estimating Lost Tax Revenue

Suppose that all property in the United States is subject to property tax. Estimate the additional tax that could be collected.

SOLUTION

Here is one way to do this. Use the following information from the U.S. Census Bureau. It shows the total annual tax revenue for state and local governments in the United States.



Suppose that 30% of the property in the United States is tax exempt. You can conclude that about $176 billion a year is lost to property tax exemptions.

Study Tip

To find the estimate of $176 billion in Example 5, use the equation

$$70\% \text{ of } \left(\begin{array}{c}\text{Total}\\\text{property}\\\text{tax}\end{array}\right) = \$410 \text{ billion}$$

to determine that the total property tax is about $586 billion. This implies that the lost revenue is about $176 billion.

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The United States' policy of "separation of church and state" stems from the First Amendment to the Constitution, which reads, "Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof. . .." Some people argue that allowing religious organizations to be exempt from property tax is a violation of the First Amendment. What do you think?