

Community Information Brief

The Muscogee County Property Tax Freeze

Part 2: The Effect of Inflation on Frozen Property Taxes

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The property tax system currently in place in Muscogee County is commonly referred to as the “Property Tax Freeze”. The property taxes of residential homes receiving a homestead exemption are based upon the assessed value of a home at the time a home is purchased. This assessed value is then fixed or “frozen” until the property is sold or improved, at which time the value of the home is reassessed and then frozen at the newly reassessed value.

The Butler Center for Business and Economic Research was contacted by the Columbus Consolidated Government to provide an analysis of the fiscal effects of the freeze and possible reforms on the County and its residents. In a series of four information briefs we present a summary of our findings. In this brief, the second of the series, we describe the effect of inflation on the frozen property tax revenues from the point of view of the homeowner and the taxing authority.

The Effect of Inflation on Frozen Property Taxes

Under the tax freeze, a homeowner pays the same number of dollars in property taxes each year, however due to inflation, the actual purchasing power of those dollars declines over time. This results in a *gain* to the “frozen” homeowner over time, an equivalent *loss* to the local government collecting the tax, and higher overall tax rates in order to provide the same level of government services.

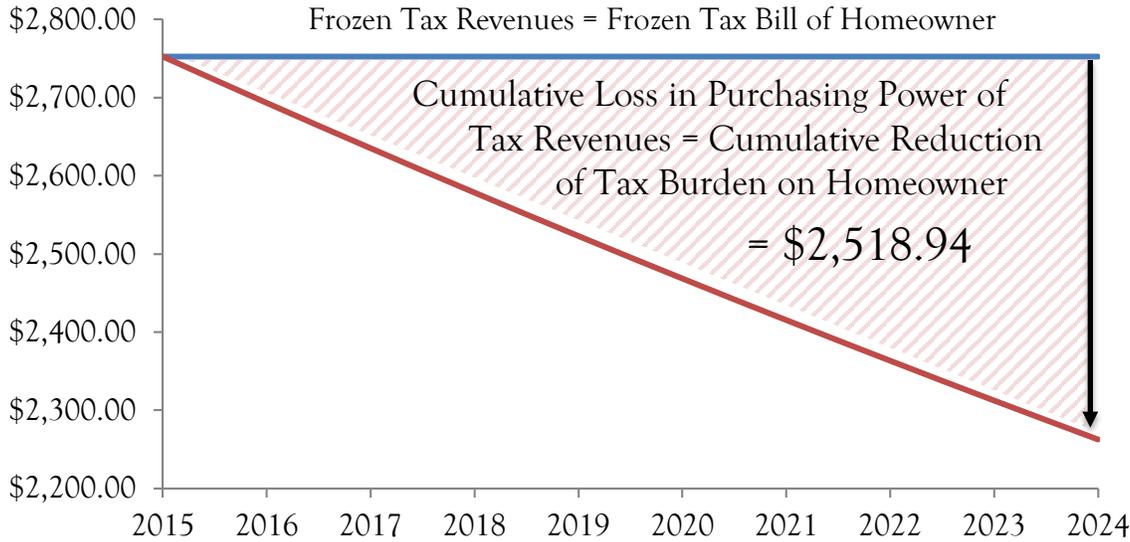
From the homeowner’s point of view, the effect of the tax freeze is to actually reduce the real burden of property taxes over time. As the overall price level rises in the economy due to inflation, the purchasing power of the fixed amount paid in taxes declines. As a result, the homeowner has to give up less and less in other goods and services each year to pay their property tax bill. For example in order to pay \$500 in property taxes in 1992, a homeowner would have to give up purchasing 442 gallons of gasoline or 180 gallons of milk. To pay this same \$500 tax bill in 2012, the homeowner would only have to give up purchasing 139 gallons of gasoline or 132 gallons of milk. Inflation reduces the property tax burden on a homeowner over time.

Alternatively, from the local government’s point of view, the property tax freeze results in the loss of purchasing power over time. As overall prices in the economy rise, the purchasing power of the frozen revenues from a homeowner declines. As a result, fewer and fewer goods and services can be purchased or provided each year from those same revenues. For example, \$500 in tax revenue received in 1992 would purchase 442 gallons of gasoline for city vehicles or 180 gallons of milk for school lunches. In 2015, this \$500 in tax revenue would only purchase 217 gallons of gasoline or 125 gallons of milk. Inflation erodes the purchasing power or real value of frozen tax revenues over time.



In Part 1 of this series, we described how someone who purchases a home in Columbus with a fair market value of \$200,000, filing the standard homestead exemption of \$13,500 would pay \$2,752.57 in property taxes in 2015. Under the freeze, this homeowner’s tax bill would remain the same until the home was sold and then reassessed. However, as described above, the combination of the tax freeze and inflation reduces the real tax burden to the homeowner over time and reduces the real purchasing power of the tax revenue collected over time. This is illustrated below.¹

The Effect of the Freeze from Two Points of View...



In 2024, the purchasing power of the frozen taxes will be 18% lower than in 2015.

In 2024, the burden of the tax on the homeowner will be 18% lower than in 2015.

The Effect of the Freeze on Tax Revenues

- purchasing power decreases each year
- after 10 years, the purchasing power has fallen by nearly \$500
- the cumulative loss in purchasing power over 10 years is over \$2,500
- the cumulative loss over 10 years is equivalent to forgoing almost one full year of tax revenue

The Effect of the Freeze on the Homeowner’s Tax Burden

- the burden of the taxes decreases each year
- after 10 years, the real tax burden has fallen by nearly \$500
- the cumulative reduction in the tax burden over 10 years is over \$2,500
- the cumulative reduction in the tax burden over 10 years is nearly equivalent to having a tax holiday for one year

Due to the effects of inflation on frozen tax revenues, the local government must either cut services or raise additional tax revenue by some other means such as increasing tax rates. Residents in Muscogee County currently face some of the highest property tax rates in the State.

Other Effects of the Tax Freeze:

- Vastly different property taxes on nearly identical homes simply due to date of purchase.
- Some citizens paying less for city services than the cost of providing those services. Some citizens paying more.

Author

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¹ We assume a 2.2% inflation rate.