

THE FISCAL IMPACT OF A 15 PERCENT REASSESSMENT CAP IN BEAUFORT COUNTY, SOUTH CAROLINA

A REPORT TO THE
COUNCIL OF BEAUFORT COUNTY

March 2004

The Jim Self Center on the Future



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By

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March 2004

ACKNOWLEDGMENTS

The author gratefully acknowledges the assistance of the following persons in the preparation of this report. Thomas Henrickson of Beaufort County provided property value data and insight into the Beaufort County tax base. Holley H. Ulbrich and Ada Louise Steirer of the Strom Thurmond Institute provided comments on earlier drafts.

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THE FISCAL IMPACT OF A 15 PERCENT REASSESSMENT CAP IN BEAUFORT COUNTY, SOUTH CAROLINA

INTRODUCTION

This report was prepared in response to a request from the council of Beaufort County to review data prepared by county officials and address two questions about the impact on the county of a 15 percent cap on growth in assessed property value at reassessment. The questions are (paraphrased):

- Would all categories of property owners be affected equally after adoption of a 15 percent cap on the growth in assessed property value at reassessment?
- Would any other analyses help Beaufort County analyze the effects of adoption of a 15 percent reassessment cap?

This report is based on an analysis of the *fiscal impact* of a 15 percent reassessment cap in Beaufort County, had it been adopted before the last reassessment in 1997. The broader economic impacts of adoption of a reassessment cap on the economy of Beaufort County are beyond the scope of this analysis.

THE LEGAL AUTHORITY FOR REASSESSMENT CAPS

The legal authority for a 15 percent cap on growth in assessed property value (APV) at reassessment resides in section 12-37-223A of the South Carolina Code, which states:

“As authorized by Section 3, Article X of the South Carolina Constitution, the General Assembly hereby authorizes the governing body of a county by ordinance to exempt an amount of fair market value of real property located in the county sufficient to limit to fifteen percent any valuation increase attributable to a countywide appraisal and equalization program conducted pursuant to Section 12-43-217. ...”

Property exempted from full valuation at reassessment by any county ordinance adopted pursuant to this state legislation remains exempted until it is legally transferred to another owner. At that time, the law requires that the property value for tax purposes be restored to full market (or appraised) value. Some property transfers are excluded from this requirement, including transfers between immediate family members and some property distributions from corporations, partnerships, and limited liability companies.

THE BEAUFORT COUNTY PROPERTY TAX BASE

As of the last reassessment in 1997, over three-quarters of the Beaufort County tax base is in residential and commercial property, according to the South Carolina Department of Revenue (SCDOR). The remainder of the tax base is dominated by personal property such as automobiles and boats. Business personal property (equipment) and utility property each comprise less than five percent of the tax base. Manufacturing property contributes less than one percent of the tax base (Table 1).

The county's most recent reassessment took effect in tax year 1998. At that time, APV in owner-occupied residential property increased 82 percent over its value in 1997 (new properties added to the tax base included), and the share of the tax base in this category rose from 21 percent in 1997 to over 30 percent in 1998. Commercial and rental property was the second fastest-rising class of property and showed a 15 percent increase in value at reassessment. But the share of commercial and rental property in the tax base dropped at reassessment along with APV shares in the remaining classes of property because of the rapid increase in the value of owner-occupied residential property. The shaded rows in Table 1 highlight the tax base changes associated with the 1997 reassessment.

The SCDOR's data includes new properties added to the tax base each year as well as older properties. As such it differs somewhat from data provided by Beaufort County that is discussed later in this report, which excludes new properties added to the tax base after the 1997 reassessment in order to better compare the fiscal impact of conventional and capped reassessment. The SCDOR APV data are presented here to show multiyear trends in the county tax base in the individual categories of property assessment.

QUESTION 1

WOULD ALL CATEGORIES OF PROPERTY OWNERS BE AFFECTED EQUALLY AFTER ADOPTION OF A 15 PERCENT CAP ON THE GROWTH IN ASSESSED PROPERTY VALUE AT REASSESSMENT?

The answer is no. All categories of property owners would *not* be affected equally after adoption of a 15 percent reassessment cap, and neither would individual property owners within the same property classification. Why not? Because imposition of a reassessment cap in any amount changes the relationship between property taxation and property value. With a reassessment cap, some property owners would subsidize the property taxes of others.

Table 1. Assessed Property Value (APV) By Assessment Classification, Beaufort County (in millions)

Tax Year	Owner-Occupied Residential (4%)	Agric. (4%)	Agric. (6%)	Commercial & Rental (6%)	Total APV: Real Property	Personal Property & Autos (<=10.5%)*	Manu-facturing (10.5%)	Business Personal (10.5%)	Utility (10.5%)	Total APV: All Property
Assessed Property Value										
2001	n.a.	n.a.	n.a.	n.a.	\$615.5	\$106.4	\$2.4	\$29.7	\$33.7	\$787.7
2000	\$203.8	\$0.7	\$0.0	\$416.7	\$621.3	\$110.0	\$4.1	\$31.5	\$29.2	\$796.1
1999	\$190.2	\$0.7	\$0.3	\$364.5	\$555.8	\$116.2	\$3.8	\$32.8	\$28.1	\$736.7
1998	\$206.0	\$0.7	\$0.3	\$320.6	\$527.6	\$93.7	\$4.0	\$26.4	\$25.2	\$676.8
1997	\$113.3	\$0.6	\$0.4	\$279.1	\$393.4	\$85.3	\$4.1	\$24.5	\$23.9	\$531.2
1996	\$104.6	\$0.2	\$0.1	\$260.0	\$364.9	\$92.8	\$2.8	\$21.6	\$19.5	\$501.6
1995	\$101.7	\$0.7	\$0.3	\$259.0	\$361.7	\$69.8	\$3.3	\$21.9	\$19.9	\$476.5
1994	\$92.4	\$0.7	\$0.4	\$260.5	\$354.0	\$65.1	\$3.4	\$13.0	\$12.4	\$447.9
% Share of Total APV										
2001	n.a.	n.a.	n.a.	n.a.	78.1%	13.5%	0.3%	3.8%	4.3%	100.0%
2000	25.6%	0.1%	0.0%	52.3%	78.0%	13.8%	0.5%	4.0%	3.7%	100.0%
1999	25.8%	0.1%	0.0%	49.5%	75.4%	15.8%	0.5%	4.4%	3.8%	100.0%
1998	30.4%	0.1%	0.0%	47.4%	77.9%	13.8%	0.6%	3.9%	3.7%	100.0%
1997	21.3%	0.1%	0.1%	52.5%	74.1%	16.1%	0.8%	4.6%	4.5%	100.0%
1996	20.9%	0.0%	0.0%	51.8%	72.8%	18.5%	0.5%	4.3%	3.9%	100.0%
1995	21.3%	0.2%	0.1%	54.4%	75.9%	14.6%	0.7%	4.6%	4.2%	100.0%
1994	20.6%	0.2%	0.1%	58.2%	79.0%	14.5%	0.8%	2.9%	2.8%	100.0%
Annual Change in APV										
2000-2001	n.a.	n.a.	n.a.	n.a.	-0.9%	-2.6%	-40.8%	-5.8%	15.4%	-1.1%
1999-2000	7.1%	-6.1%	-83.7%	14.3%	11.8%	-6.0%	8.1%	-3.8%	3.8%	8.1%
1998-1999	-7.7%	7.4%	-2.6%	13.7%	5.3%	24.0%	-4.8%	24.3%	11.7%	8.8%
1997-1998	81.9%	4.9%	-19.8%	14.9%	34.1%	9.8%	-1.8%	7.5%	5.4%	27.4%
1999-1997	8.3%	196.0%	174.8%	7.4%	7.8%	-8.1%	48.2%	13.6%	22.3%	5.9%
1995-1996	2.9%	-70.7%	-57.0%	0.4%	0.9%	33.0%	-15.3%	-1.4%	-1.7%	5.3%
1994-1995	10.1%	2.2%	-9.7%	-0.6%	2.2%	7.2%	-5.7%	68.7%	60.3%	6.4%

* Includes motor carriers. n.a. = not applicable. Source: S.C. Department of Revenue, *Annual Reports*.

The Role of the Property Tax in Government Finance

Governments raise most of their revenues through the following three methods:

- taxes on income,
- taxes on spending, or
- taxes on wealth or assets.

State governments rely heavily on income and sales taxes. Income and sales taxes usually are paid in small pieces over time, which makes them relatively inoffensive unless tax rates are high. Income taxes are deducted from paychecks, and each cash register transaction requires payment of sales taxes. To the extent that people do not have income to tax or with which to buy taxable goods, they don't pay these taxes.

The property tax differs considerably from taxes on income and spending. The property tax is a tax on wealth: land; buildings; and in some states, large pieces of machinery, cars, boats, and airplanes. There are a number of things that make the property tax especially unpopular.

- Taxable assets don't always generate an income to pay the tax.
- Property taxes come in a big bill due right after the Christmas holidays.
- Periodic property reassessment—now every five years in South Carolina—may come with large, unpopular, tax increases for property owners whose property appreciated faster than average.

If the property tax is so unpopular, why don't we get rid of it? It is the only effective way to tax wealth. It also is a primary revenue source for local governments around the country. Local governments rely on the property tax to support a variety of local services, including public education, public safety, street maintenance, and parks and recreation.

The Taxable Value of Property

The property tax and property reassessment system is set up so that the property tax is proportional to the value of the property upon which it is levied. The relative *taxable* value of property is established in the South Carolina Constitution through assessment ratios that convert the appraised value of eight different types of property into taxable assessed values. The same property tax rate is then levied on all eight classes of property. Thus in South Carolina the tax paid on a particular property depends both on its appraised or market value *and* its use.

$$\text{Taxable Assessed Property Value (APV)} = \text{Appraised Value} * \text{Assessment Ratio}$$

The South Carolina Constitution gives owner-occupied residential property the lowest assessment ratio (4 percent of appraised value) and thus the lowest taxable value as a percentage of appraised value. Table 1 shows that a quarter of Beaufort County's property

tax base is owner-occupied residential property, while slightly over half of the tax base is commercial and rental property.

To keep the property tax proportional to market value, the state of South Carolina now requires counties to reassess property every five years. More frequent reassessment ensures that APVs track changes in property value. This in turn ensures that property taxes paid remain closely linked to property value over time.

The Property Tax Levy

In South Carolina, local governments (counties, school districts, municipalities, and some special purpose districts) levy property taxes on APV using a property tax rate called a *mill*. Local governments set their mill rates annually based on estimates of total APV within their borders and the amount of revenue they expect to need from the property tax to fund services.

$$\text{Value of One Mill} = 0.001 * \text{APV}$$

$$\text{Property Tax Revenue} = \text{APV} * \text{Mills Levied}$$

If a county's total APV is relatively high, the county will need to levy fewer mills to raise a given amount of revenue than will a county where total APV is lower. Consequently, counties with higher populations and larger tax bases generally have lower mill rates than counties with lower populations and smaller tax bases.

In 2002, in Beaufort County one mill generated \$910,000 in tax revenue, the fifth highest in the state according to the South Carolina Department of Commerce. Beaufort County's revenue-raising ability was surpassed only by Richland, Horry, Greenville, and Charleston counties. Mill rates in these five counties are relatively low compared to the five counties with the lowest revenue-raising capacity per mill, as shown in Table 2.

The Fiscal Impact of a 15 Percent Reassessment Cap in Beaufort County

Three factors must be considered in order to fully evaluate the fiscal impact of a reassessment cap:

- changes in the mill rate,
- tax burden shifts between classes of property, and
- tax burden shifts between properties within the same class.

Table 2. Tax Rates and County Revenues Raised, 2002
(ranked by revenue per mill)

County	County Mills*	Revenue Per Mill
Top-Ranked Counties		
Charleston	109.7	\$1,576,000
Greenville	64.1	\$1,444,590
Horry	50.9	\$1,099,140
Richland	87.7	\$992,000
Beaufort	55.3	\$910,000
Bottom-Ranked Counties		
Hamptom	163.0	\$38,922
Bamberg	110.4	\$27,300
McCormick	100.3	\$27,280
Lee	145.0	\$25,199
Allendale	168.0	\$21,972

*County operations only. Source: SC Department of Commerce, *South Carolina Property Tax Rates by County 2002*.

Changes in the Mill Rate

Local governments are not allowed to benefit financially from reassessment. State law requires local governments to roll back their millage so that the total amount of revenue collected after reassessment is the same as was collected before (inflation and new properties and improvements excluded). Because property values generally increase countywide at reassessment, millage generally decreases.

A reassessment cap limits growth in the taxable value of certain properties. As a result, with a reassessment cap the increase in the overall tax base will be smaller than it would have been under conventional (uncapped) reassessment. To clearly illustrate this effect, the following analysis excludes the APV of new properties and improvements that would have been added to the tax base in the reassessment year.¹ Doing this reveals the change in value of an identical tax base under conventional and capped reassessment. Under normal conditions, most property tax bases increase annually due to the addition of new real property to the tax base and the replacement of personal property, as well as by other means such as delinquent tax payments. As Table 3 shows, the value of the 1997 tax base in Beaufort County increased 40.4 percent at reassessment. But after capped reassessment, total county APV only increased a much more modest 6.4 percent.

Because of the smaller increase in the tax base, millage will not roll back as far under capped reassessment as it would have under conventional reassessment. Table 3 illustrates how the combined mill rate for county and school operations in Beaufort County in 1998

¹ This analysis assumes that there is no change in value to personal property (including autos and motor carriers) at reassessment.

would have changed after conventional reassessment and after reassessment capped at 15 percent growth in APV in 1997. (Actual revenue raised by Beaufort County in 1997 and 1998 will vary from that in Table 3 because of different millage, delinquent tax payments, and the addition of new property to the tax base during the reassessment year.)

Table 3. Hypothetical Post-Reassessment Mill Rate Rollback Comparison in Beaufort County, 1998

	Assessed Property Value*	Combined County + School Mill Rates	Change in Mill Rate 1997-1998	Revenue Raised**
Before Reassessment, 1997	\$505,860,944	191.1 (actual)	n.a.	\$97,074,715
After Conventional Reassessment, 1998	\$710,372,305	136.7 (estimated)	-28.8%	\$97,074,715
After Capped (15%) Reassessment, 1998	\$538,358,912	180.3 (estimated)	-6.0%	\$97,074,715

*The tax base and the revenue raised from it are held constant in both years. Only APV and the mill rate vary depending on the reassessment scenario. **Revenue raised is calculated using the formula: revenue = (APV * (mills/1000)). Actual revenue collected by Beaufort County in 1997 and 1998 will vary. Source: Beaufort County.

The higher rollback millage after capped reassessment means that many property owners will see a higher tax bill than they would have after conventional reassessment. Owners of property that appreciated less than 15 percent will pay higher taxes to make up for revenue lost on properties that are capped. Property owners receiving the most benefit from a reassessment cap will be those whose property appreciated substantially more than the 15 percent allowed by the cap. In general, whether an individual property owner pays higher or lower taxes after a reassessment cap depends on whether the savings gained from the capped APV more than offset the losses incurred as a result of the higher post-reassessment millage, adjusted for any overall government revenue increase or decrease.² The effect of capped reassessment with higher rollback millage on the tax bills of same-valued properties is discussed below.

Tax Burden Shifts Between Classes of Property.

Adoption of a reassessment cap will shift part of the property tax burden from classes of property that have appreciated more than 15 percent at reassessment to classes of property that have appreciated less than 15 percent. The shift in tax burden between classes of property in Beaufort County largely will be from residential and commercial properties, which have appreciated the most rapidly, to manufacturing, utility, agricultural, and personal property, which are slower-growing (or declining) components of the county property tax base (Table 1).

² The relationship between property tax revenue, mills, and assessed property value after reassessment (conventional or capped) is governed by the following formula: Change in tax revenue = (mill rate after reassessment * change in APV) + (change in mills * APV before reassessment). This formula applies to classes of property as well as individual properties.

Table 4 illustrates how the property tax burden in Beaufort County would have shifted between different classes of property before and after conventional and capped reassessment in 1997. As before, total revenue collected in 1998 is held constant at \$97.1 million under both reassessment scenarios, and new properties are excluded from the tax base in that year to more clearly isolate the shift in tax burden.

Table 4. Estimated Revenue Shares in Beaufort County Before and After Reassessment (County tax base held constant with 1997 property)

Property Classification	Before Reassessment, 1997		After Conventional Reassessment, 1998		After Capped Reassessment, 1998	
	Millions*	% Share	Millions*	% Share	Millions*	% Share
Owner-occupied residential & ag (4%)	\$21.8	22.4%	\$24.2	25.0%	\$24.5	25.3%
Commercial, rental & ag (6%)	\$54.1	55.7%	\$57.7	59.5%	\$52.6	54.2%
All other	\$21.2	21.9%	\$15.1	15.5%	\$19.9	20.5%
Total revenue	\$97.1	100.0%	\$97.1	100.0%	\$97.1	100.0%

*Revenue raised is calculated using the formula revenue = (APV * (mills/1000)). Actual revenue collected by Beaufort County will vary. 1998 revenue excludes revenue from new property on the books. Note: Detail may not add to totals due to rounding. Source: Beaufort County.

Before reassessment in 1997, owner-occupied residential property contributed 22.4 percent of combined county and school district property tax revenue. Commercial and rental property provided the largest revenue share (55.7 percent), while all other categories contributed the remaining 21.9 percent of revenue collected in that year.

After conventional reassessment, the share of combined county and school district property tax revenue paid by properties in the four percent and six percent assessment classes climbed to 84.4 percent, reflecting the significant increases in market value seen in these classes of real property since the last reassessment. As a result, after conventional reassessment the share of total county and school taxes paid by all other classes of property combined dropped to a much lower 15.6 percent share. This significant drop illustrates the link between property taxation and property value: as property values in the owner-occupied residential and commercial classes rose, they generated a large share of total property tax revenue raised.

After capped reassessment, the share of combined county and school district property tax revenue paid by owner-occupied residential property climbed to 25.3 percent at the new, higher mill rate. But commercial property dropped in revenue share to 54.2 percent due to the redistributive effects of the reassessment cap. Thus all other property assumes an additional 5.0 percent of the total property tax burden under capped reassessment than it would have under conventional reassessment. In this example, that tax burden translates to an additional \$4.8 million. This is the additional amount that would have been paid by 4 percent and 6 percent property at the prevailing mill rate after conventional assessment.

In Beaufort County, the effect of capping growth in assessed value in the 6 percent assessment class would be the largest driver of the shift in the tax burden after the 1997 reassessment. Beaufort County's data shows that while 4 percent and 6 percent assessment property appreciated at similar rates in the 1997 conventional reassessment, a larger share of the value of 6 percent property would have been capped than of 4 percent property (Table 5). With conventional reassessment, 4 percent property increased 56.1 percent and 6 percent property increased 50.0 percent. But under capped reassessment, owner-occupied residential property increased nearly 20 percent, while commercial property increased only 3.6 percent.

Table 5. Changes in Property Value After Conventional and Capped Reassessment, Beaufort County (County tax base held constant with 1997 property)

Property Classification	Percent Change in APV, 1997 to 1998
<i>Owner-occupied residential & ag (4%)</i>	
After conventional reassessment	56.1%
After capped reassessment	19.7%
<i>Commercial, rental & ag (6%)</i>	
After conventional reassessment	50.0%
After capped reassessment	3.6%

Source: Beaufort County

Under conventional reassessment, the share of total county and school district property tax revenues that were paid by commercial property in 1998 increased after reassessment, as did the actual dollars paid. Under capped reassessment, however, the share of total revenues and dollars paid in 1998 by commercial property both would have been lower than they were in 1997. The difference in revenue share and revenue paid by owner-occupied property was much smaller between the two reassessment scenarios.

Tax Burden Shifts Between Individual Properties Within the Same Class.

At reassessment, the property tax burden shifts between individual properties within a single class. Adoption of a reassessment cap will shift part of the property tax burden from properties that have appreciated more than 15 percent at reassessment to properties that have appreciated less than 15 percent.

In this analysis, the shift in tax burden between individual properties takes place exclusively within the four percent and six percent assessment classes. These classes of property appreciated the most rapidly in recent years. They are also the classes of property in which Beaufort County identified properties that would have been capped in the 1997 reassessment, had the county been using a reassessment cap at that time. The remainder of the tax base is assumed to remain at the same level of value before and after reassessment.

Tables 6 and 7 illustrate how the property taxes on four representative properties would have been affected in 1998 by conventional and capped reassessment in Beaufort County.

In the example of the two owner-occupied houses in Table 6, the owner of the house that increased in appraised value by only 7.5 percent (\$15,000) at reassessment under conventional reassessment would have seen a decrease in his or her tax bill of \$360 in 1998 due to the lower rollback millage, even though the house's assessed value increased in direct proportion to its increase in appraised value. The house that increased 37.5% in appraised value at reassessment (\$75,000) would have seen its APV capped, however. With a reassessment cap in place, that property would still have a higher tax bill than it would have under conventional reassessment because of the higher prevailing rollback millage.

But if that second house appreciated 100 percent (\$200,000) and reassessment was capped at 15 percent, then the property owner still would pay only an additional \$124 in county and school taxes, rather than an additional \$652 under conventional reassessment. (The latter example is not included in Table 6.) As stated earlier, whether an individual property owner pays higher or lower taxes after a reassessment cap depends on whether the savings gained from the capped APV more than offset the losses incurred as a result of the higher post-reassessment millage.

The examples of taxes paid by commercial property under conventional and capped reassessment in Table 7 show similar outcomes. The property that grew more slowly in value would have seen a dramatically higher tax bill under capped reassessment (\$8,654) than it would have seen under conventional reassessment (\$6,562). The higher prevailing mill rate required after capped reassessment transfers part of the burden of paying for capped properties to those that are not capped. As in the owner-occupied home example, the more rapidly growing property still pays higher taxes after capped reassessment than after conventional reassessment because of the mill rate effect.

When the tax burden shifts between properties within the same class, the location, age, and condition of properties in the tax base becomes very important. All other things being equal, a newer property is usually appraised at a higher value than an older property. Vacant and underdeveloped land may also see a rapid rise in appraised value when a parcel's location suddenly becomes desirable.

In Beaufort County, where population growth is high and residential and commercial property is being developed at a rapid rate in certain areas of the county, the value differences can be significant. Thus under a reassessment cap there is likely to be a shift of tax burden from newer to older owner-occupied homes, and from rapidly appreciating new and existing homes in developing parts of the county to existing homes in other portions of the county. Within the 6 percent assessment class, the shift of tax burden is likely to be from newer to older condos and other rental housing, from newer (or refurbished) hotels to older ones, and from newer to older business properties.

Table 6. Changing Property Tax Payments on Owner-Occupied Residential Property After Conventional and Capped Reassessment

	Owner-Occupied Residential Property #1			Owner-Occupied Residential Property #2		
	Before	After Conventional	After Capped	Before	After Conventional	After Capped
Year	1997	1998	1998	1997	1998	1998
Appraised Value	\$200,000	\$215,000	\$215,000	\$200,000	\$275,000	\$275,000
Assessment Ratio	4%	4%	4%	4%	4%	4%
Is the property's APV growth capped?	No	No	No	No	No	Yes
Assessed Property Value (APV)	\$8,000	\$8,600	\$8,600	\$8,000	\$11,000	\$9,200
Mill Rate	0.1919	0.1367	0.1803	0.1919	0.1367	0.1803
Property Tax Payment	\$1,535	\$1,176	\$1,551	\$1,535	\$1,504	\$1,659
Tax Payment Change 1997-1998	n.a.	-\$360	\$15	n.a.	-\$32	\$124

Source: Beaufort County. Detail may not add to totals due to rounding.

Table 7. Changing Property Tax Payments on Commercial and Rental Property After Conventional and Capped Reassessment

	Commercial/Rental Property #1			Commercial/Rental Property #2		
	Reassessment Status			Reassessment Status		
	Before	After Conventional	After Capped	Before	After Conventional	After Capped
Year	1997	1998	1998	1997	1998	1998
Appraised Value	\$750,000	\$800,000	\$800,000	\$750,000	\$1,000,000	\$1,000,000
Assessment Ratio	6%	6%	6%	6%	6%	6%
Is the property's APV growth capped?	No	No	No	No	No	Yes
Assessed Property Value (APV)	\$45,000	\$48,000	\$48,000	\$45,000	\$60,000	\$51,750
Mill Rate	0.1919	0.1367	0.1803	0.1919	0.1367	0.1803
Property Tax Payment	\$8,636	\$6,562	\$8,654	\$8,636	\$8,202	\$9,331
Tax Payment Change from 1997 to 1998	n.a.	-\$2,074	\$19	n.a.	-\$434	\$695

Source: Beaufort County. Detail may not add to totals due to rounding.

Reassessment Caps in Municipalities and Geographic Areas

The above analysis also applies to municipalities and geographic areas in Beaufort County. Under capped reassessment, the mill rate required to raise an identical amount of revenue in a municipality will be higher than the rollback millage after conventional reassessment. As a result, municipalities with a larger share of capped property will see a relatively higher prevailing mill rate after capped reassessment than those with fewer capped properties.

Residents of municipalities and geographic areas within the county may also shoulder different shares of the county and school district tax burden. This outcome depends on whether the municipal or regional tax base contains a large or small number of capped properties. On average, residents in municipalities or geographic areas of the county with properties that are appreciating less rapidly than others will pay a larger share of total county and school district revenue. Again, this is because of the higher prevailing mill rate after capped reassessment.

The Long Term Impact of a 15 Percent Reassessment Cap in Beaufort County

The state law authorizing counties to adopt an ordinance to limit the growth in APV at reassessment to 15 percent requires that capped properties be re-entered on the tax rolls at their full market (or appraised) value when they change ownership.³ As properties are bought and sold in the years between periodic reassessments, their increased assessed value for tax purposes will increase the overall tax base and put some downward pressure on the mill rate. Under the conventional system of assessment the assessed value of a property does not change when the property changes hands.

The impact of property transfers on the tax base in Beaufort County will depend on the number of transfers and the difference between the capped APV and the new APV. Beaufort County identified real estate transfers of properties that occurred during tax years 1999, 2000, and 2001 and that would have been capped as of the last county reassessment in 1997. The county then calculated the capped value of these properties and compared it to the appraised value and the sales price. Table 8 shows the impact these formerly capped properties would have had on the county tax base in those three years.

Table 8 shows that the formerly capped properties would have added up to \$11.5 million to the tax base in 1999. This would have generated up to \$2.13 million in revenue at a combined county and school district tax rate of 185 mills, for example. In 2001, the increase in the value of the tax base from transferred properties would have added up to \$27.2 million and would have generated \$5.2 million in revenue at the same tax rate.

³ Qualifying property transfers between family members and partners in partnerships and limited liability corporations are exempt from this requirement and retain their capped value.

Table 8. The Tax Base Impact of Capped Property Transfers

	Capped APV as a Percentage of:		APV Added to Tax Base After Sale Using:		Value of APV Added to Tax Base at One Mill	
	Sales Price	Appraised Value	Sales Price	Appraised Value	Sales Price	Appraised Value
1999						
All 4% Property	66.5%	60.0%	\$3,070,826	\$4,062,590	\$3,071	\$4,063
All 6% Property	58.4%	64.1%	\$8,440,273	\$6,612,600	\$8,440	\$6,613
2000						
All 4% Property	61.5%	76.0%	\$2,986,687	\$1,508,417	\$2,987	\$1,508
All 6% Property	51.6%	74.8%	\$15,649,854	\$5,605,078	\$15,650	\$5,605
2001						
All 4% Property	51.1%	71.2%	\$4,862,708	\$2,049,806	\$4,863	\$2,050
All 6% Property	43.5%	73.8%	\$22,305,317	\$6,094,268	\$22,305	\$6,094

Source: Beaufort County.

QUESTION 2

WOULD ANY OTHER ANALYSES HELP BEAUFORT COUNTY ANALYZE THE EFFECTS OF ADOPTION OF A 15 PERCENT REASSESSMENT CAP?

The following analyses are recommended, using actual property values from 1997 forward:

- Create a firmer estimate of the expected percentage increase in post-reassessment cap millage rates in 1998 by adding in new property added to the books and by including all classes of property in the analysis. Just because most (or all) properties in a particular class would appreciate by less than the amount of the reassessment cap does not mean that they would not be affected by the cap (see the discussion under Question 1). If property values are expected to increase in the county's 2004 reassessment at the same rate as in the 1997 reassessment, then the calculated percentage increase in post-cap millage in 1998 may be useful in estimating the magnitude of the rollback millage that may result in 2005. County residents will be most concerned about what to expect after the next reassessment, and not with what would have happened in 1998.
- Look at the distribution of property value and property value increase at reassessment *within* property classes. Then, calculate the direct tax impacts on representative properties of different value within each class. For example, consider representative owner-occupied residential properties valued at \$50,000, \$100,000, \$250,000, \$750,000 and \$1,500,000 (or whatever makes sense for the range of property values in Beaufort County). Within a given municipality or area of the county, how did properties of a given value increase in APV on average during the 1997 reassessment, and how would the tax bills on those representative properties

have been affected by the increased millage resulting from a reassessment cap adopted at that time? This analysis is particularly important for owner-occupied residential properties, where there are legitimate concerns about long-term residents being forced from their homes due to rapidly increasing property values.

- In estimating the fiscal impact of the reassessment cap beginning in 2005, the county should take into account the declining assessment ratio on personal motor vehicles. Unless there is substantial growth in value in the coming years from the addition of vehicles to the tax base, the decrease in the Constitutional assessment ratio on personal property from 10.5 percent to 6 percent is likely to put upward pressure on mill rates through 2007, at which point the assessment ratio will stabilize at 6 percent. This change in assessment ratio on personal property is currently causing a shift in tax burden from motor vehicles to all other real and personal property.

SUMMARY AND CONCLUSION

South Carolina state law allows counties to adopt an ordinance to cap the growth in APV at reassessment to 15 percent. In addition, the General Assembly also is considering other legislation that, for example, proposes to freeze APV at current levels until sale, and to allow reassessment caps to be restricted to certain classes of property. Beaufort County elected officials and administrators must weigh their public policy goals for the county while taking into consideration who gains and who loses under a reassessment cap.

Benefits of Reassessment Caps

- **Reassessment caps will benefit owners of property that is rapidly increasing in value.** Rapidly increasing property taxes are never popular, but they become especially problematic when property owners do not have the income with which to pay their tax bill. Persons who have held owner-occupied residential property for a long time are most likely to find themselves in this situation, especially if their income declines during their retirement years. A reassessment cap will provide some relief for property owners in this situation, although as seen in Tables 6 and 7, capped properties may still see a higher tax bill after capped reassessment due to higher rollback millage.
- **Reassessment caps will encourage development of real property in areas where property values are rising rapidly.** To the extent that the threat of rapidly rising property taxes depresses the sale and consequent development of real property, that threat will be mediated somewhat in counties that adopt reassessment caps.

Costs of Reassessment Caps

- **Reassessment caps will benefit owners of property that is rapidly increasing in value.** This benefit of capped reassessment is also a cost. Many owners of property that would be capped can afford to pay their property taxes. Under capped reassessment, all property owners will pay a part of the tax burden avoided by the capped property because of the higher prevailing rollback millage. Owners of slowly appreciating property will bear the largest share of this shift in tax burden.
- **Reassessment caps will encourage development of real property in areas where property values are rising rapidly.** Again, this benefit of capped reassessment is also a cost. In Beaufort County, property values are increasing the most rapidly in areas where development also is occurring rapidly. Hilton Head Island and Bluffton are good examples of this phenomenon. A reassessment cap in Beaufort County will tend to encourage real estate development in areas of the county that are already experiencing considerable development pressures, and will discourage it in areas where the county may wish to encourage development to benefit residents of the county. Counties do not need development incentives for desirable land; they need them for *undesirable* areas.
- **In Beaufort County, commercial and rental property (assessed at 6 percent) benefits more in tax payments avoided under capped reassessment than owner-occupied property,** according to Beaufort County's analysis. But unlike homeowners, owners of commercial property may be able to pass along most or all of their property tax increases to purchasers of the goods or services provided. In addition, commercial property may be more easily sold for another use that generates more profits with which to pay the property tax than can owner-occupied housing.
- **Reassessment caps will depress real estate transfers and revenues from the real estate transfer tax.** Owners of property that is rapidly increasing in value will be more likely to hold on to their property than sell it if APV growth at reassessment is capped. And because the current law allows property to remain capped through multiple reassessments, this incentive will grow stronger over time. If this occurs, the real estate market—at least for existing homes and businesses—is likely to slow. This slowdown in turn will adversely affect revenues from the real estate transfer tax. Capped reassessment may also discourage some property owners from undertaking major renovations because they also would add substantially to their property's otherwise capped taxable value.
- **Under current state law, there is no provision for partial recoupment of property taxes avoided under a reassessment cap when property changes ownership.** In South Carolina, developers of agricultural land must pay five years' worth of rollback property taxes when that property is converted to a nonagricultural use.⁴ Because the difference between property value and property taxation will grow larger on capped properties at each subsequent reassessment, it is recommended

⁴ South Carolina Code §12-4-220(d)(4).

that the General Assembly should consider incorporating a similar requirement for formerly capped properties to pay rollback property taxes upon transfer of ownership.

An Alternative Approach to Property Tax Relief

Income-based state property tax relief could provide South Carolina with another way to address the threat of rising property taxes for property owners with limited income. These programs are used by many states to target tax relief to homeowners that need it most.⁵ In particular, “circuit breaker” tax relief programs are specifically designed to protect homeowners with falling incomes (or rapidly rising property values) from losing their homes due to inability to pay taxes. Some of these programs defer property tax payments until the property changes ownership or the homeowner’s financial circumstances change. Because interest is charged on the deferred taxes, these programs can become self-supporting after initial seed money from the state. Other income-based property tax relief programs require annual funding from the state.

Under the current system of property taxation, some long term property owners in Beaufort County have seen and will continue to see significant increases in their tax bills as the value of their property climbs. Capped reassessment would help stabilize the tax bills of these owners, but it would do so at the expense of other taxpayers in the county. Unfortunately, current state law makes no provision for property tax relief based on income and its relationship to property value and the tax owed, although many other states have such programs. In the long term, Beaufort County and the state of South Carolina will be better served by the adoption of income-linked property tax relief programs than such a blunt instrument as a reassessment cap.

⁵ States don’t generally provide property tax relief to commercial property, and property tax relief for larger industrial properties is usually available only to new plants and existing property undergoing a significant expansion.