NAHB | KANSAS SCR 1611 | Property Tax Valuations | ANALYSIS

Senate Concurrent Resolution (SCR) 1611 amends section 1 of article 11 of the constitution of the state of Kansas. Further, if approved by the legislature, it will go to the voters. The legislative bill works to cap property valuations by 4% except for new construction or remodeling.

If passed in the legislature, the SCR 1611 will go to the ballot for the 2024 year.

BACKGROUND:

State and local governments across the country have collected over $600 billion in property tax revenues, which comprise roughly 17% of general revenues. [1] These funds have been allocated to local fire stations, public schools, and infrastructure that have benefited the greater good of the community. Furthermore, while not all states have a cap or limitation on property evaluation, some states have laws that make them circuit-breaker states- 18 states to be exact. [2] This helps people who cannot afford their property taxes to pay at a lower rate based on their income. Since 1970, many states have looked into passing laws that restrict tax rates and/or cap value at a certain percentage. [3]

There are over 1,292,622 housing units in Kansas with a 66.9% owner occupancy rate, according to the 2022 U.S. Census.[4] Kansas's property tax rate is 1.33% statewide and the property assessment for residential property is 11.5%, agricultural land is 30%, vacant land is 12.0%, and commercial and industrial is 25%. Further, Kansas's average housing value is at $189,300.

THIS BILL:

This bill amends Section 1 of the Kansas Constitution relating to property taxation, limiting valuation increases for real property. If passed by the legislature, this bill will go on the 2024 ballot. The amendment proposes various technical changes to the current law:

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[1] https://www.urban.org/policy-centers/cross-center-initiatives/state-and-local-finance-initiative/projects/state-and-local-backgrounders/property-taxes

[2] https://www.cbpp.org/sites/default/files/atoms/files/policybasics-taxcaps.pdf

[3] https://www.cbpp.org/research/state-budget-and-tax/state-limits-on-property-taxes-hamstring-local-services-and-should-be

[4] https://www.census.gov/quickfacts/fact/table/KS/HSG010222

- The valuation of any real property shall not increase by more than 4% in any taxable year except when:
    - The property includes new construction or improvements that have been made to the property;
    - The class or subclass of the property changes for assessment rate purposes the following:
    - The property becomes disqualified from exemption;
    - The property is first listed as escaped or omitted property;
    - The legal description of the land, lot, or parcel changes, except that the total valuation of all property affected by a legal description change shall not exceed the total valuation of the affected property for the previous year by more than 4% or conveyed to another person
    - Title to the property may define new construction or improvements by law and enact such other legislation as is necessary to administer this provision.

If this bill gets a 2/3rd vote in the legislature and gets passed, Kansas will have to limit its property valuation by capping it to 4%. This means that if voters approve this on the 2024 ballot, starting in 2025 home owners in Kansas will only have the valuation of their home increase by 4% annually. Home owners would lose the value of their homes. Proponents argue that this will save home owners money on their tax bills, and this is to assist individuals who are on a fixed income.

Concerns:

While it sounds great to save on the property tax by capping a home valuation it does come with unattended consequences. For example, more people will be less likely to downsize their house since they are locked in for a lower tax bill. This has been seen in states like California and Arizona. Further, states must make up that loss of revenue which typically tends to be through other impact fees or sales tax avenues.

Potential Amendments:

An Act relating to property taxation; Middle-Class Property Tax Circuit Breaker Act.

Be it enacted by the Legislature of the State of Kansas:

Section 1. Chapter 79, Article 14 to create Section 97 to read the following:

(Section 97) Middle-Class Circuit Breaker Credit. (1) Definitions. For this subsection:

(a) “QUALIFIED TAXPAYER” means a resident individual of the State who owns the residential real property in which he or she resides and has resided in such residential real property for not less (insert months/years).
(b) “HOUSEHOLD” or “MEMBER OF THE HOUSEHOLD” means a qualified taxpayer or qualified taxpayers and all other persons.
(c) “HOUSEHOLD INCOME” “means the aggregate adjusted gross income of all members of a household for the taxable year as reported for federal income tax purposes, or which would be reported as adjusted gross income if a federal income tax return were required to be filed, plus any portion of the gain from the sale or exchange of property otherwise excluded from such amount.

Section 2. TAX CREDIT A qualified taxpayer shall be allowed a credit against state income taxes due/paid, equal to (one hundred percent) of the amount by which the taxpayer’s net real property tax or the taxpayer’s real property tax equivalent exceeds the taxpayer’s maximum real property tax or the taxpayer’s real property tax equivalent exceeds the taxpayer’s maximum, the comptroller shall pay as an overpayment, without interest, any amount in excess of the state income tax due/paid. If a qualified taxpayer is not required to file a return, the comptroller shall pay as an overpayment the full amount of the credit, without interest.

(C) MAXIMUM REAL PROPERTY TAX.

(a) A qualified taxpayer’s maximum real property tax shall be as follows:

(1) (Insert %) of household gross income if household gross income is less than (Income limit);

(2) (percent) of (Income), plus (percent) of household gross income greater than (income) but less than (total income);

(3) (percent) of (income) plus (percent) of ($) plus (seven percent) of household gross income over ($) but less than ($); and unlimited on household gross income in excess of (total $).

Section 3. This law becomes affective on January 1, 2025.

ARGUMENTS in SUPPORT:

Proponents may argue that lower valuations on property taxes can save home owners money. Further, the public will get the opportunity to vote and get involved in the democratic process in the state. Placing a cap of 4% on real property valuations every year not only can keep the property taxes low but may help the home owner to stay in their home longer.

For example, Arkansas is one of the many states that allow assessment limits on property taxes and the average tax bill is $878, one of the lowest property tax averages in the nation. Regardless of the size of the state, even big states like California, Florida, Texas, and New York are among the states that have some sort of property valuation caps. Some may even include circuit breaker taxes that provide another layover of tax credit for home owners and renters in their prospective states. [5]

Currently, there are over 18 states plus Washington, D.C. that have a cap on valuation limitations on real property. Further some states also provide Homestead Act to seniors that reduce their property assessments per year to keep the tax bill low. Such actions by the government allow individuals to save money on property taxes and feel secure knowing that they will not be penalized or potentially lose their homes due to unforeseen property tax increases.

ARGUMENTS in OPPOSITION:

While capping the assessment of the property at a certain percentage, in this case at 4%, can lower the property tax bill to an extent, it jeopardizes future housing stock availability. Homes will no longer be valued at market rate. Further, in a state like Kansas, where the legislature is consistently under Republican control, it becomes contradictory to the idea that the Republican party supports the markets dictating a laissez-faire approach. It is worth noting that historically states that have placed some real property assessment caps have looked into different ways to fill the gap on the missing tax funds.

Property tax assessments fund local fire, police, water and sewer improvements, education, roads, libraries, and other services in the community. SCR 1611 would cause many of these funds to decrease. Typically, governments will have to either cut existing programs or look at different avenues to make up the revenue loss. The shift to other form of taxation to make up the revenue loss has been typical since the early days of property tax assessment capping.

SIMILAR LEGISLATION/ CURRENT LAWS:

States with assessment limitations:

- Arizona
- Arkansas
- California
- Colorado
- Connecticut
- District of Columbia (Washington, D.C.)
- Florida
- Georgia

[5] https://www.kiplinger.com/taxes/property-tax-cap-by-state

- Hawaii
- Iowa
- Maryland
- Michigan
- New Mexico
- New York
- Oklahoma
- Oregon
- South Carolina
- Texas

Similar/Ballot Legislation:

- Proposition 13 (CA, 1978)
- Proposition 50 (OR, 1997)
- Referendum 47 (WA, 1997)
- Washington, DC
- New York / Factsheet
- Act 388 (SC, 2006)
- SB 177, Act 431 (GA, 1999)
- Amendment 10 (FL, 1992) /1992 article

POTENTIAL SUPPORT:

Justice Action Network, AARP Kansas, American Civil Liberties Union of Kansas, and Taxpayer organizations.

POTENTIAL OPPOSITION:

Kansas Association of Realtors, Kansas Farm Bureau, Kansas Chamber of Commerce, Kansas Building Industry Association, and Home Builders Association of Greater Kansas.