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Property-tax 'break' more like a hoax

The Register's editorial

A break on property taxes included in a housing bill being debated by Congress might on the surface look like a good deal for homeowners struggling with the mortgage crisis. In fact, it would pile on work for the already bloated federal bureaucracy and give no tax benefit at all for many taxpayers.

The bill, intended to bring relief to home buyers fearing foreclosure, would create a new federal deduction for property taxes for taxpayers who do not itemize their tax returns.

It's not a huge deal, since most homeowners itemize and already deduct property-tax payments. But the break (\$500 for individuals; \$1,000 for couples) might help some people who use the short form avoid default. Except that Arizona Sen. Jon Kyl threw in an amendment that would deny the deduction to taxpayers if any local government in their community raises property-tax rates during the remainder of this year.

Aside from punishing taxpayers who have no control over their property-tax bills, this provision would be a challenge of enormous, if not impossible, proportions to implement. In Iowa, for example, there are roughly 3,400 taxing authorities, counting cities, counties, schools and special authorities such as county hospitals and community colleges. A property owner in Des Moines, for example, pays taxes to eight separate bodies. The federal tax break would be canceled if any one of those raised rates by even a fraction of a penny.

It would be hard enough for the average taxpayer to keep track of that, let alone the red-tape-bound Internal Revenue Service in Washington. Just multiply Iowa's taxing jurisdictions times 50 states.

Congress might think this amendment will discourage the raising of local tax rates to make up for the federal break, but so few homeowners would benefit from the break that it is hardly an incentive to raise rates.

Unlike Congress, which simply whips out the federal Master Card to pay its bills, local governments must balance their books. In the current economy, that's tough - especially in places like the Midwest, plagued by floods and tornadoes. Cities hit first by disaster and then by a shrunken property-tax base may have little choice but to raise tax rates. Thus, if this amendment stays in the housing bill, it would amount to a dirty trick played on the most vulnerable taxpayers.

Iowa governments, which have already set tax rates for next year, may be exempt because the amendment can be read to cover only rate increases approved after the bill's enactment. But the wording of the amendment is not clear, and some critics note that the exemption would likely be extended beyond 2008.

That would amount to a perpetual denial of tax breaks for just one small class of taxpayers. That is wrong. Congress should stick to figuring its own tax rates and spending policies, and leave local governments to make their own decisions.