

Tax Caps and “User Fees” How to create inequitous tax policy by Accident

Joshua Vincent, CSE CEO

Here’s a common urban finance scenario: Homeowners are upset about tax increases every year. The specter of those unable to pay provides ammunition for unflattering press, angry citizens and increased agitation from opponents. A natural reaction in the United States over the past 30 years has been to “do something”.

This is the root of most property tax limitation movement from Prop 13 in California Prop 2 ½ in Massachusetts, New Jersey’s recent 2% annual tax increase in property taxes, and late but loudly to the game New York state’s 2% annual. A victory for the poor and middle class? Not quite.

Government, particularly local government, is actually quite sensitive to the needs and desires of its citizens. Restricted by tax caps, other means are used to keep revenue flowing for parks, garbage pickup, and all the various services that cities towns and suburbs demand. So government finds other ways to keep the tap running, but in ways that are nearly invisible: borrowing (paying off the principal and interest is put off until everybody involved is long gone), hidden taxes – usually the sales tax – or the ever-growing popular option “fee-for-service.”

The economically impoverished town of Clairton Pennsylvania provides a simple explanation of how this works. Homeowners and business pay for how much water they use. Sounds almost fair enough. Leave the bathwater running all day long you pay more. But what’s really creating an issue and angst is another part of the water service: a flat fee. For residents, it’s \$50 a month, whether you are a long retired steel worker who has little income or somebody making hundred thousand dollars a year. For business, you could be struggling storefront shop or a thriving pizza delivery and you pay hundred dollars a month.

Regressivity is a more common outcome of user charges than is commonly recognized. That ought to change. The outcome the city services based on value can be made more progressive than resorting to invisible charges or flat fees.

How it looks

Six Houses in a row, all assessed at the same value of \$100,000 at a tax rate of 1%. Taxes still rise, while local government seeks alternative funds in flat fees for services, such as trash pick up. Regressivity increases, collection costs increase, the goal of a tax cap to help those least able to pay? A failure.



Metric	House 1	House 2	House 3	House 4	House 5	House 6
Real Estate Tax	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Household Income	\$25,000	\$45,000	\$65,000	\$75,000	\$100,000	\$125,000
Percent of Income Year One	4%	2.20%	1.50%	1.30%	1%	0.80%
2% Cap	\$1,020	\$1,020	\$1,020	\$1,020	\$1,020	\$1,020
User Flat "Trash" Fee	\$100	\$100	\$100	\$100	\$100	\$100
Percent of Income Year Two	4.50%	2.50%	1.70%	1.50%	1.10%	0.95%