

## PROPERTY TAX REASSESSMENT: WHO NEEDS IT?

*Stewart E. Sterk\* and Mitchell L. Engler†*

### ABSTRACT

Property tax assessment practices vary considerably among the states. Most states require periodic reassessments to ensure that property tax burdens reflect current market values, while California and a few other states base assessments almost exclusively on purchase price. The horizontal equity case for assessments based on current market value, however, ignores the impact of tax capitalization, which ensures that the purchase price of homes will reflect (and therefore dissipate) any inequity in tax charges. Moreover, efforts to maintain assessments on current market value are costly, plagued by inaccuracy, and rife with the potential for political favoritism. Conversely, however, tax assessments based exclusively on purchase price creates excessive variance between the benefits individual homeowners receive from municipal services and the taxes they pay for those services. That variance increases the potential for inefficient voter behavior, and consequently for inefficient provision of municipal services.

To address these problems, the article suggests that property tax assessments should be based on initial purchase price during the ownership period, with a retrospective adjustment at the time of sale to reflect the below-market assessments enjoyed by the seller during her period of ownership. In its simplest form, the retrospective adjustment would be based on an average of the purchase and sale prices. The proposal eliminates the need for periodic reassessment, and more closely aligns the cost each homeowner bears for municipal services with the benefits received.

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\* Mack Professor of Law, Benjamin Cardozo School of Law.

† Professor of Law, Benjamin Cardozo School of Law.