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STATEMENT BY IRIS LAV, DEPUTY DIRECTOR,  
ON PROVISION IN BIPARTISAN SENATE HOUSING PACKAGE  
AFFECTING LOCAL PROPERTY TAXES

While the Senate housing package would establish a new property tax deduction for non-itemizers, a little-noticed provision of the bill would *deny* the new deduction to any resident of a locality that raises its property tax rate between April 2 and next January 1. By preventing localities from raising tax rates to help compensate for shrinking property tax revenues, the provision could force many localities to cut police, schools, and other vital public services. It also would improperly pre-empt local taxing powers and pressure states to make up the lost local revenue even as many of them struggle with their own budget problems. And it would place unprecedented demands on the IRS that would likely make it impossible to administer.

- Property taxes support vital services such as police and fire departments and are a major funding source for schools in most states. In the areas hardest hit by the housing crisis, property values — and thus property tax revenues — are falling. If they do not have the flexibility to offset even a portion of this revenue loss by raising property tax rates, they will have to cut police forces, close fire stations, and potentially lay off teachers or take other drastic action to cut K-12 education.

This proposal would also undercut localities' efforts to deal with extra burdens that foreclosures have placed on them, such as policing areas with abandoned housing, assisting families that have lost their homes, and housing the newly homeless.

- If the federal government precludes localities from offsetting their lost property tax revenues, *states* will face pressure to make up the revenue. But more than half of the states already face deficits that average 9 percent of their expenditures. Thus, this proposal would squeeze state and local services from both ends.
- The federal government should not pre-empt local governments' taxing power. In our system of federalism, states — not the federal government — grant taxing power to localities. If the federal government decides to create a new tax break, it should do so *without* pre-empting local rights.
- The proposal is unworkable. At least 40,000 different towns, counties, and school districts levy property taxes; their boundaries overlap in some states and do not correspond to any other boundary measures, such as zip codes. For *each taxpayer* seeking the proposed deduction, the IRS would have to determine whether the jurisdiction(s) in which the taxpayer resides had complied with the freeze on property taxes. Because there is no central repository of current data on property tax rates, that would be an impossible task for the IRS to perform.

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