Center on Budget and Policy Priorities

1275 First Street NE, Suite 1200
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

Updated October 1, 2019

ISSUE BRIEFS: HOW STATES CAN TAX WEALTH

State "Mansion Taxes" on Very Expensive Homes

By Michael Leachman and Samantha Waxman

A historically large share of the nation's wealth is concentrated in the hands of a few. As a result, millions of American families have less wealth, and therefore fewer opportunities, than they otherwise would. Further, since wealthy people are overwhelmingly white, this extreme wealth concentration reinforces barriers that make it harder for people of color to make gains. One way states can build more broadly shared prosperity is by adopting a tax on high-value housing, often called a mansion tax, to help fund schools, health care, roads, and other services and infrastructure critical to residents' long-term future. Mansion taxes would also make state and local tax systems — which now are tilted in favor of the wealthy — fairer.

State and Local Tax Systems Worsen Wealth Inequities

The top 1 percent of households own roughly 40 percent of the nation's wealth, while the bottom 90 percent own just 21 percent. This top-heavy structure reduces opportunity for millions of families, particularly families of color, who face great barriers to building wealth due to the legacy of historical racism and the ongoing damage from racial bias and discrimination.

Nearly all state and local tax systems worsen these inequities by asking less (as a share of income) of the very highest-income families than of the poorest families — often much less. Further, much of the value of assets that extremely wealthy people hold, such as stocks and bonds, real estate, and personal possessions like boats, jewelry, and artwork, is shielded from federal, state, and local taxes.

By shifting some of the responsibility for funding critical public services and investments from low- and moderate-income taxpayers to those best able to pay, states could not only make their tax systems fairer but also generate additional revenue.

Mansion Taxes Are One Way to Improve State Taxation of Wealth

Property taxes typically are levied as a flat percentage of a property's assessed value, regardless of how high the value is. Most state *income* taxes, in contrast, have a graduated rate structure, under which the rate rises as income rises. Some states and localities have begun to consider adopting this approach for their property taxes by setting a higher rate for high-value properties.

In addition to reducing inequality generally and making state and local tax systems fairer, mansion taxes can help states overcome racial inequities rooted in past racist policies and sustained by ongoing discrimination and bias. Historically, an extensive array of public policies held back people of color, including government practices that segregated them in low-value neighborhoods, combined with widespread racism in private interactions and in business transactions such as obtaining mortgages. Despite the considerable progress in overcoming these barriers, people of color own much less housing wealth than they otherwise would.[1] Further, numerous studies have documented that racial discrimination and bias *continue* to limit housing and job opportunities for people of color.[2] States can use the added revenue from graduated property taxes on high-value property to increase opportunities in lower-income communities of color (as well as other areas with relatively few opportunities), helping people of color to overcome these barriers to the betterment of the country as a whole.

States will also need to take other steps to better tax wealth so that the very wealthy do not receive special privileges, but mansion taxes are a good place to start. Home values are easier to measure than other forms of wealth: recent sales of similar properties in the same locality can often be identified, and housing ownership is usually publicly available information. In contrast, the value of an ownership interest in a closely held business can be very difficult to estimate accurately. In addition, houses can't be easily moved across borders to avoid taxation, unlike other types of wealth such as stocks, bonds, or bank accounts.[3]

Designing Mansion Taxes

States and localities can tax mansions in a variety of ways. One way is to create or build upon taxes or fees levied when ownership of real property is transferred between parties, such as when a home is bought or sold. Typically known as real estate transfer taxes, these are also called documentary stamp taxes or property transfer taxes, among other terms.[4] Thirty-five states have such taxes. (See Figure 1.)

---

[1] Michael Leachman *et al.,* "Advancing Racial Equity With State Tax Policy," Center on Budget and Policy Priorities, November 15, 2018, https://www.cbpp.org/research/state-budget-and-tax/advancing-racial-equity-with-state-tax-policy.

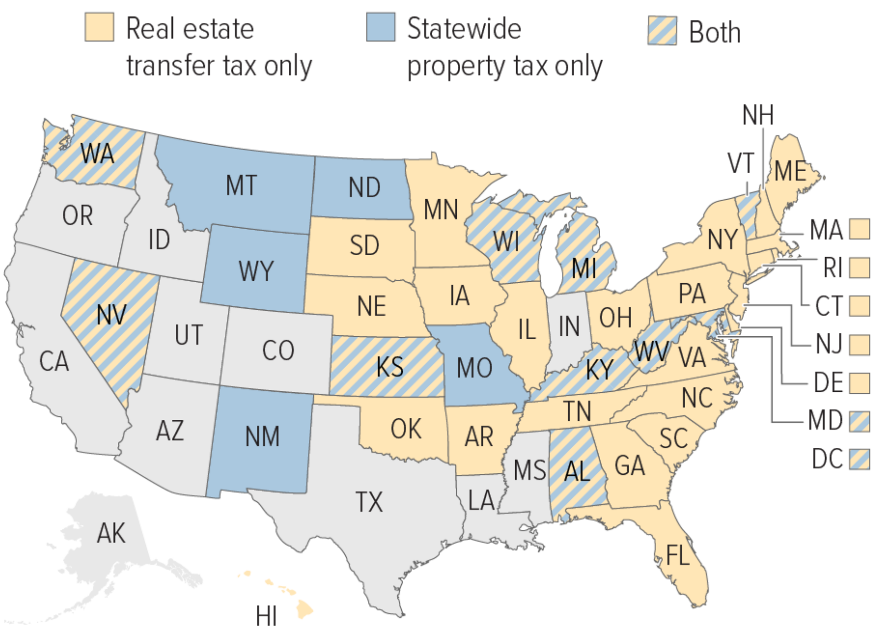
[2] Lincoln Quillian *et al.,* "Meta-analysis of field experiments shows no change in racial discrimination in hiring over time," Proceedings of the National Academy of Sciences of the United States of America, October 10, 2017, http://www.pnas.org/content/114/41/10870.full.

[3] Intangible assets can easily be moved across national and state borders, which has long facilitated both illegal tax evasion and legal tax avoidance. See Eric Lipton and Julie Creswell, "Panama Papers Show How Rich United States Clients Hid Millions Abroad," *New York Times,* June 5, 2016, and Richard Rubin, "Wealthy N.Y. Residents Escape Tax with Trusts in Nevada," Bloomberg News, December 18, 2013.

[4] "Significant Features of the Property Tax: Real Estate Transfer Charges," Lincoln Institute of Land Policy and George Washington Institute of Public Policy, https://www.lincolninst.edu/research-data/data-toolkits/significant-features-property-tax/topics/real-estate-transfer-charges

FIGURE 1

39 States Plus D.C. Have Real Estate Transfer Taxes or Statewide Property Taxes



Note: Ten states have limited statewide property taxes, such as those levied only on certain properties, only on specialized industries, or under limited circumstances as defined by law. State-required taxes that are collected locally and stay with localities are not counted as statewide property taxes.

Source: National Conference of State Legislatures, Lincoln Land Institute, and CBPP analysis of state laws

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

Seven states — Connecticut, the District of Columbia, Hawaii, New Jersey, New York, Vermont, and Washington — levy a surcharge on the highest-value homes or have a progressive bracket structure through their real estate transfer tax system (see Figure 2):

- Connecticut levies a transfer tax of 0.75 percent on homes valued at less than $800,000. Its transfer tax also applies a higher rate to the portion of the property value over $800,000 (1.25 percent), and as of January 1, 2021, to the portion of the property value over $2.5 million (2.25 percent). The homeowner can receive a credit for tax paid at the 2.25 percent rate starting the third year after the home purchase if they remain in Connecticut.
- The District of Columbia levies a transfer tax that is based on a property's sale value, with a higher rate for properties exceeding $400,000.
- Hawaii's transfer tax has seven brackets that are applied to the property's sale value, with increases in steps for properties valued between $600,000 and $10 million.
- New Jersey's transfer tax applies higher graduated rates to homes sold, with different rate schedules for homes under and over $350,000, plus a 1 percent tax on homes sold over $1 million.

- New York levies a flat real estate transfer tax plus an additional tax of 1 percent of the property's sale value for residences of $1 million or more for all homes in the state. As of 2019, residential properties bought and sold in New York City only are subject to two additional state transfer taxes. The first increases the tax rate for homes valued at over $3 million. The second creates additional graduated rates ranging in steps from 0.25 percent for homes valued at more than $2 million to 2.9 percent for homes over $25 million.
- Vermont's transfer tax applies a higher rate of 1.25 percent to the portion of the property value above $100,000; the rate on the portion under $100,000 is 0.5 percent.
- Washington State made its transfer tax progressive in 2019, with graduated rates that increase for homes sold that are worth over $500,000, $1.5 million, and $3 million. These new rates will apply as of January 1, 2020. The state cut the rate for homes worth less than $500,000.

While real estate transfer taxes are usually levied at the state level, some localities also levy them and thus could add a mansion tax to their transfer tax. In November 2018, for example, Oakland voters approved a measure to change their real estate transfer tax from a flat rate of 1.5 percent per home sold to four brackets with increasing rates between 1 and 3 percent. The measure also reduces the rate for first-time homebuyers with low or moderate incomes.[5] In 2017, New York City Mayor Bill de Blasio proposed a 2.5 percent transfer tax on residential sales over $2 million in order to fund affordable housing for seniors.[6]

Another way to tax high-value homes is to add a mansion tax onto a state or local property tax system. Taxes on the values of homes are levied at the local level in all states; 16 states also have state property taxes. No state has graduated property tax rates for mansions, though the District of Columbia has a higher marginal rate for commercial and industrial property valued over $3 million. Since property taxes are typically levied annually, this form of tax would produce revenue from the owners of expensive homes each year; real estate transfer taxes produce revenue only when homes are sold.

Three states increased real estate transfer taxes on high-value homes in 2019: Connecticut and New York improved their existing mansion taxes and Washington State made its tax more progressive. Others have considered doing so in the past several years. For instance, in 2015 Rhode Island Governor Gina Raimondo proposed a surcharge on secondary homes worth more than $1 million.[7] And in 2018, Hawaii lawmakers referred to the ballot a constitutional amendment creating a surcharge on investment property to support public education, but the state supreme court ruled it unconstitutional prior to the vote.[8]

---

[5] "City of Oakland Measure X," https://www.acvote.org/acvote-assets/02_election_information/PDFs/20181106/en/Measures/20%20-%20Measure%20X%20-%20City%20of%20Oakland.pdf; Robert Gammon, "Updated: Oakland Mayor Libby Schaaf Wins Reelection," *East Bay Express*, November 6, 2018, https://www.eastbayexpress.com/SevenDays/archives/2018/11/06/oakland-mayor-libby-schaaf-jumps-out-to-big-lead.

[6] "De Blasio Proposes 'Mansion Tax' on Homes That Sell for $2M or More," DNAinfo New York, January 30, 2017, https://www.dnainfo.com/new-york/20170130/upper-east-side/de-blasio-mansion-mansion-tax-millionaire/.

[7] "Raimondo's second-home tax targets properties worth more than $1M + Poll," Katherine Gregg, *Providence Journal,* updated March 18, 2018, http://www.providencejournal.com/article/20150317/NEWS/150319308.

[8] Janis L. Magin, "Hawaii Supreme Court invalidates constitutional amendment ballot question on property tax," Pacific Business News, October 19, 2018, https://www.bizjournals.com/pacific/news/2018/10/19/hawaii-supreme-court-invalidates-constitutional.html.

FIGURE 2

State Taxes on High-Value Property

Tax type	State
Real estate transfer tax	**Connecticut:** Increasing marginal rates, for homes valued at less than $800,000 (0.75 percent), $800,000 to $2.5 million (1.25 percent), and as of January 1, 2021, over $2.5 million (2.25 percent). The homeowner may receive a credit for tax paid at the 2.25 percent rate starting the third year after the home purchase, if they remain in Connecticut.
	District of Columbia: Surcharge on total property value; rate rises with property value, with higher rate for properties valued at over $400,000.
	Hawaii (conveyance tax): Surcharge on total property value; rate rises with property value, with rate increases in steps for properties valued between $600,000 and $10 million.
	New Jersey (realty transfer fee): Increasing marginal rates, with separate rate schedules for properties above and below $350,000. Additional real estate transfer tax of 1 percent of the property value applies to properties valued at $1 million or more.
	New York: Flat real estate transfer tax plus an additional tax of 1 percent of the property's sale value for residences of $1 million or more. Residential properties in New York City only are subject to two additional state transfer taxes: one increases the rate for properties valued over $3 million, and the second creates additional marginal rates ranging from 0.25 percent for homes valued at more than $2 million to 2.9 percent for homes over $25 million.
	Vermont: Higher marginal rate on portion of a property's value that exceeds $100,000 threshold.
	Washington state: As of January 1, 2020, increasing marginal rates apply to properties valued over $500,000, $1.5 million, and $3 million.
Property tax	**District of Columbia:** Higher marginal tax rate for commercial and industrial property values exceeding $3 million

Source: National Conference of State Legislatures, Lincoln Land Institute, and CBPP analysis of state tax laws

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

Estimating Mansion Tax Revenue

A nationwide tax of 1 percent on homes over $1 million could generate about $47 billion per year, according to an economist with Moody's Analytics.[9] Some states limit lawmakers' ability to enact mansion taxes, however: five states ban new transfer taxes, seven don't allow statewide property taxes, and others require all property to be taxed at the same rate.[10] If just those states with the legal ability to impose a mansion tax did so, the total would be substantially less.

Nevertheless, a mansion tax could raise meaningful revenue for a state. The Urban Institute estimated the revenue potential of a property tax surcharge of 1 percent on homes worth $2 million or more and 2 percent on homes worth $5 million or more in seven states plus the District of Columbia. In all states estimated, such a tax would fall on fewer than 2 percent of all homes, yet it would raise amounts ranging from $29 million (in Maine) to $4.3 billion (in California).[11] (See Table 1.)

TABLE 1

Potential Revenue in Selected States from Property Tax Surcharge

1 percent surcharge for homes worth $2 million or more; 2 percent surcharge for homes worth $5 million or more, 2016

State	Total residential properties	Total homes ≥ $2 million	Total home values ≥ $2 million (millions)	Total homes ≥ $5 million (millions)	Total home values ≥ $5 million (millions)	Property tax surcharge revenue (millions)	Percent of homes subject to surcharge	Property tax surcharge revenue per capita
California	8,284,512	90,601	$324,292	11,597	$100,904	$4,252	1.1%	$108
Colorado	1,683,139	17,142	$70,837	3,820	$31,487	$1,023	1.0%	$185
District of Columbia	147,448	2,004	$6,232	163	$1,201	$74	1.4%	$109
Maine	495,320	873	$2,599	57	$341	$29	0.2%	$22
Massachusetts	1,846,552	15,320	$50,244	1,456	$11,614	$619	0.8%	$91
Michigan	3,939,491	2,235	$6,417	94	$550	$70	0.1%	$7
Nevada	973,380	1,756	$6,372	222	$2,076	$84	0.2%	$29
New York	4,543,196	34,223	$126,148	3,644	$36,208	$1,624	0.8%	$82

Notes: Calculations restricted to single-family residential properties, including condos but excluding co-ops and luxury rentals. California and Colorado would need to pass legislation to change existing revenue limits to implement a property tax surcharge.

Source: Urban Institute, "Exploring the Viability of Mansion Tax Approaches," 2018

---

9 Adam Ozimek, "A Tax on Luxury Homes," Moody's Analytics Economy, December 14, 2016, https://www.economy.com/dismal/analysis/datapoints/292072/A-Tax-on-Luxury-Homes/.

10 It is not clear how many states would be barred from implementing a mansion tax or could face legal challenges if they did so. Seven states have clauses in their constitution stipulating that taxes must be uniform across the same class of property. Whether additional states effectively restrict mansion taxes will become clearer if more states pursue the policy.

11 CBPP calculation of data from Jung Choi *et al.,* "Exploring the Viability of Mansion Tax Approaches," Urban Institute, May 2018, https://www.urban.org/sites/default/files/publication/98423/exploring_the_viability_of_mansion_tax_approaches_19.pdf. A transfer tax surcharge with the same criteria would affect fewer than 3 percent of all homes.

Estimating surtax revenues in additional states would require information such as the total value of residential properties above a threshold, or the total value of property sold above a certain value within a certain time period. This may be available from state governments in some cases. The U.S. Census Bureau collects data on housing values across the states but limits publicly available information about high-value homes.

Policy Design Choices

Policymakers must make several decisions in designing a tax on high-value housing. The tax should take into account how many mansions are in a state, where they are concentrated, and how quickly they sell, as well as any applicable state laws. Choices include:

- **Whether to choose a real estate transfer tax or a statewide property tax.** Some states have restrictions on either type of tax. In that case, using the type of tax permitted under current state law would be the easiest path. But changing the law is also an option. Property tax limits,[12] tax uniformity clauses, and revenue and expenditure limits may also affect which tax can be chosen and how much revenue it could raise.
- **How to set the threshold for a surcharge or the rate structure for a progressive tax.** States could consider flat dollar thresholds, so homes valued above that amount would pay the higher tax. Or they could consider a threshold aimed at taxing a certain share of houses, for example the most expensive 5 percent of houses in the state. (In this case, the threshold amount would still be a dollar figure but would shift based on a regularly updated analysis of housing values in the state.) Other factors to consider are the amount of revenue that would be raised and the number of homes above the threshold.[13]
- **Which types of property to include in the tax.** The tax could include all homes or second or vacation homes only, and could include or exclude commercial property.
- **Whether to index thresholds for inflation, if based on dollar thresholds.** Indexing is a sensible feature, as it would ensure the tax remains focused on the highest-value homes.

[12] Iris J. Lav and Michael Leachman, "State Limits on Property Taxes Hamstring Local Services and Should Be Relaxed or Repealed," Center on Budget and Policy Priorities, July 18, 2018, https://www.cbpp.org/research/state-budget-and-tax/state-limits-on-property-taxes-hamstring-local-services-and-should-be.

[13] Choi *et al.*

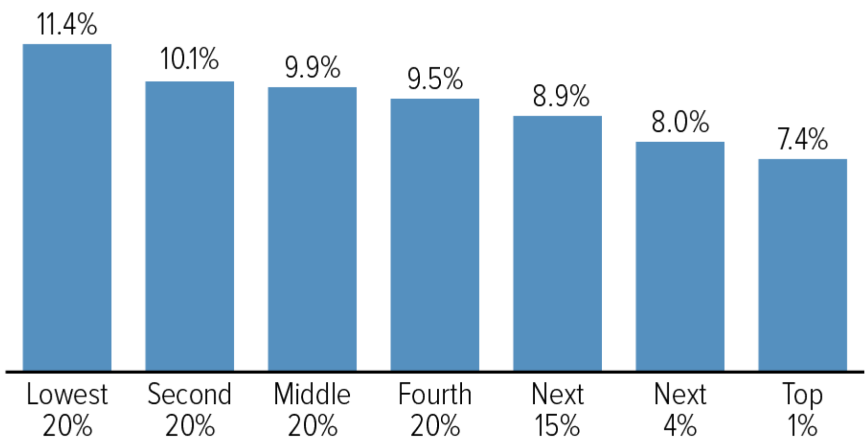
Appendix

State and local tax systems overall are upside down — that is, they ask low- and middle-income households to pay a larger share of their income in taxes than the very highest-income households do, as Appendix Figure 1 shows. Property taxes, which are typically assessed as a flat rate on a property's assessed value, contribute to this regressivity (see Appendix Figure 2). By contrast, state and local income taxes overall are based on ability to pay, as Appendix Figure 3 shows, in large part because most state income tax systems use graduated rates that rise as income rises.

APPENDIX FIGURE 1

Lowest-Income Households Pay Highest *Overall* State and Local Taxes

Total state and local taxes that non-elderly residents paid as a share of their income in 2018



Income ceilings: $21,000 for bottom 20%; $37,000 for second 20%; $60,000 for middle 20%; $104,000 for fourth 20%; $227,000 for next 15%; $553,000 for next 4%.

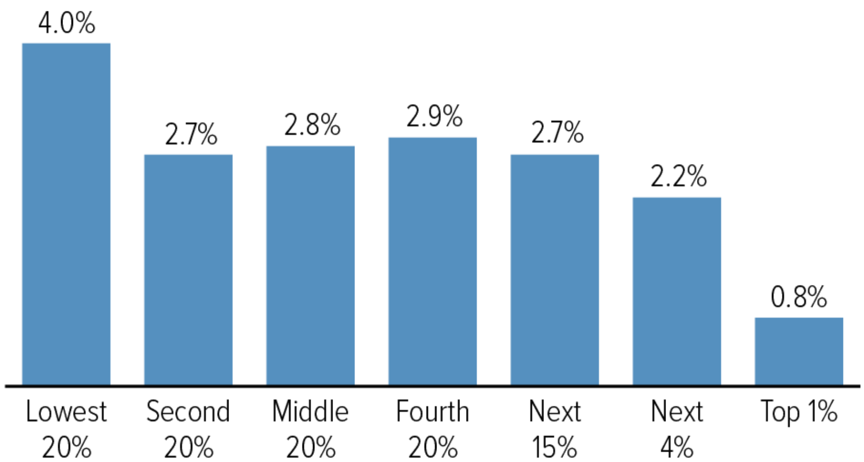
Source: Institute on Taxation and Economic Policy

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

APPENDIX FIGURE 2

Property Taxes Make State and Local Tax Systems Less Fair

Total state and local residential property taxes that non-elderly residents paid as a share of their income in 2018



Note: Income ceilings: $21,000 for bottom 20%; $37,000 for second 20%; $60,000 for middle 20%; $104,000 for fourth 20%; $227,000 for next 15%; $553,000 for next 4%. Excludes business property tax on non-residential property.

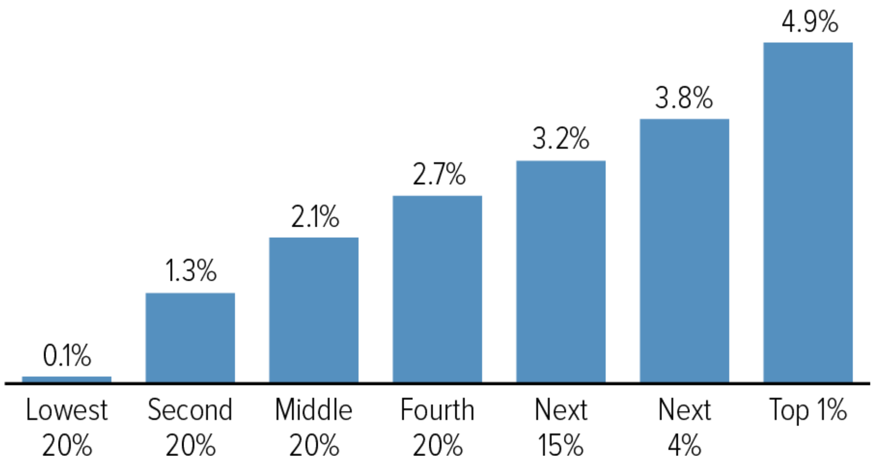
Source: Institute on Taxation and Economic Policy

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

APPENDIX FIGURE 3

State and Local *Income* Taxes Based on Ability to Pay

Total state and local income taxes that non-elderly residents paid as a share of their income in 2018



Note: Income ceilings: $21,000 for bottom 20%; $37,000 for second 20%; $60,000 for middle 20%; $104,000 for fourth 20%; $227,000 for next 15%; $553,000 for next 4%.

Source: Institute on Taxation and Economic Policy

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

APPENDIX TABLE 1

Real Estate Transfer Taxes and Statewide Property Taxes

State	Transfer Tax	Transfer Tax Ban	Statewide Property Tax	Statewide Property Tax Ban
Alabama	X		X	
Alaska			Limited	
Arizona		X	Limited	
Arkansas	X			X
California			Limited	
Colorado		X		X
Connecticut	X			
Delaware	X			
District of Columbia	X		X	
Florida	X			X
Georgia	X			
Hawaii	X			X
Idaho				
Illinois	X			
Indiana				
Iowa	X		Limited	
Kansas	X		X	

APPENDIX TABLE 1

Real Estate Transfer Taxes and Statewide Property Taxes

State	Transfer Tax	Transfer Tax Ban	Statewide Property Tax	Statewide Property Tax Ban
Kentucky	X		X	
Louisiana		X		
Maine	X		Limited	
Maryland	X		X	
Massachusetts	X			
Michigan	X		X	
Minnesota	X		Limited	
Mississippi				
Missouri		X	X	
Montana			X	
Nebraska	X			X
Nevada	X		X	
New Hampshire	X		Limited	
New Jersey	X			
New Mexico			X	
New York	X			
North Carolina	X			
North Dakota			X	
Ohio	X			
Oklahoma	X			X
Oregon		X	Limited	
Pennsylvania	X			
Rhode Island	X			
South Carolina	X		Limited	
South Dakota	X			
Tennessee	X			
Texas				X
Utah				
Vermont	X		X	
Virginia	X		Limited	
Washington	X		X	
West Virginia	X		X	
Wisconsin	X		X	
Wyoming			X	
Total	35	5	16	7

Note: States marked “Limited” levy statewide property taxes only on certain properties, only on specialized industries, or under limited circumstances as defined by law. State-required taxes that are collected locally and stay with localities are not counted as statewide property taxes.

Source: National Conference of State Legislatures, Lincoln Land Institute, and CBPP analysis of state tax laws