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Arkansas' Property Tax: A Local Tax Supporting Local Services

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Property taxes have long been an important source of revenue for Arkansas school districts, cities and counties. They provide a substantial portion of funding for services provided by local governments, such as education, roads, hospitals, libraries and public safety. The purpose of this publication is to inform citizens about what local services the property tax funds, who pays the property tax and how much property tax we pay compared to residents of other states.

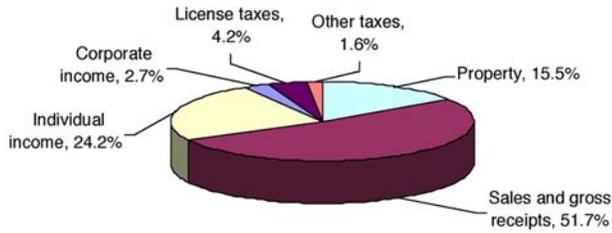
The property tax is a local tax collected by local county government officials and distributed to local school districts and county and city governments. Local voters must approve all increases in millage rates except for city and county general funds, county road funds and the statewide uniform property tax. The county quorum court may approve millage levies for county general and road funds up to the maximum allowed. City governments may approve millage levies for the city general fund up to the maximum allowed. Increases in the statewide uniform property tax must be approved by a majority of Arkansas voters. Revenue from the statewide uniform property tax is collected by local government officials, remitted to the State Treasurer and distributed back to school districts as required by law.

Revenue Generated by the Property Tax

In Arkansas, the property tax generates just 16 percent of total state and local tax revenue (Figure 1). However, because it is a local tax, it represents a much larger share of tax revenue for local governments. In 2001-2002, property tax revenue represented 58 percent of local government tax revenue, totaling over \$1 billion (Figure 2).¹ This money is used to fund local schools, county roads and streets, public safety and other local services.

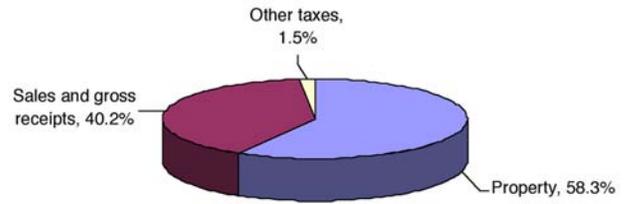
¹The census data report statewide collections of property taxes, such as the statewide uniform property tax and tax on utilities and carriers, as state revenue. However, since these are really local taxes in which all revenue collected is returned to local governments, this revenue has been included as local tax revenue in the figures shown in this publication.

Figure 1. Arkansas State and Local Tax Revenue by Source, 2001-2002.



Source: U.S. Census Bureau, State and Local Government Finances by Level of Government

Figure 2. Local Tax Revenue by Source, 2001-2002.



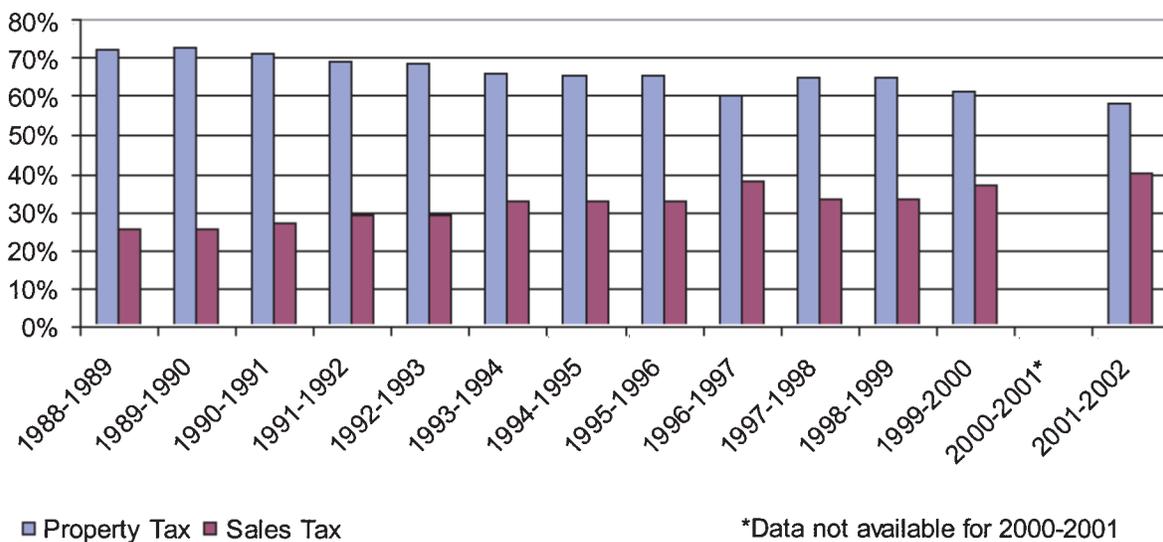
Source: U.S. Census Bureau, State and Local Government Finances by Level of Government

Although the property tax generates the largest share of local government revenue, its share of total local tax revenue is shrinking (Figure 3). The share of property tax revenue has declined from 72 percent in 1988-89 to 58 percent in 2001-02. This has occurred because many county and municipal governments now use the sales tax to generate an increasing share of their local revenue. During the same time period, the share of sales tax revenue has increased from 26 percent to 40 percent. While county and local governments are increasingly looking at alternative sources of revenue, the property tax remains a critical source of revenue for many county and city governments. In particular, the property tax remains the primary source of local tax revenue for special assessment districts and school districts.

Local Services Supported by the Property Tax

Approximately three-fourths of the property tax revenue generated in 2002 went to school districts (Figure 4). Sixteen percent went to county governments and the remaining 8 percent to cities. The allocation of property tax revenue among school districts and county and city governments in Arkansas' 75 counties varies somewhat depending on the local tax mix. In each county, school districts receive between 67 and 92 percent of property tax revenue generated in their county.² Some county governments rely on the property tax as their primary source of local tax revenue, while most obtain a large share of local tax revenue from sales tax.

Figure 3. Property and Sales Tax Revenue (Percent of Local Government Tax Revenue), 1988-2002.

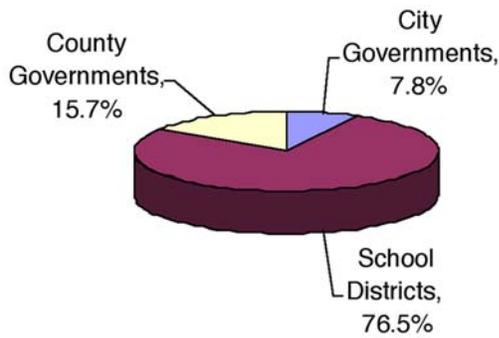


*Data not available for 2000-2001

Source: U.S. Census Bureau, State and Local Government Finances by Level of Government

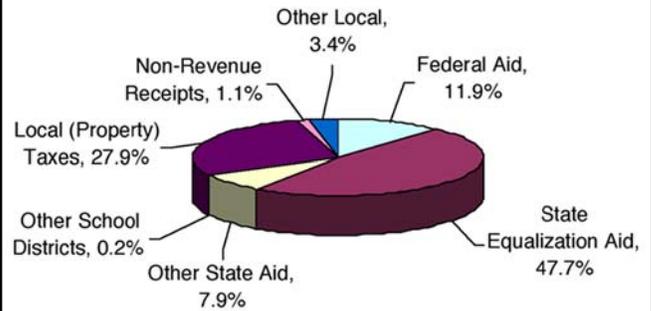
²Property tax data for Arkansas school districts, cities and counties is available from the Arkansas Assessment Coordination Department.

Figure 4. Property Tax Revenue by Taxing Unit, 2002.



Source: Arkansas Assessment Coordination Department

Figure 5. Arkansas School District Revenue by Source, 2002-2003.



Source: Arkansas Department of Education, 2002-2003 Annual Statistical Report of the Public Schools of Arkansas and the Education Service Cooperatives

Local Schools – Primary and Secondary Education

Although the largest share of public school district funding overall comes from state aids, the property tax generates a significant portion of public school revenue. In the 2002-03 school year, property taxes accounted for nearly 28 percent of total school district funding (Figure 5). With oversight from locally elected school boards, school districts administer property tax revenue for schools. School districts use property tax revenue to pay teachers' salaries, purchase school supplies and equipment, purchase and maintain school buses, build and maintain classrooms and fund other operating expenses.

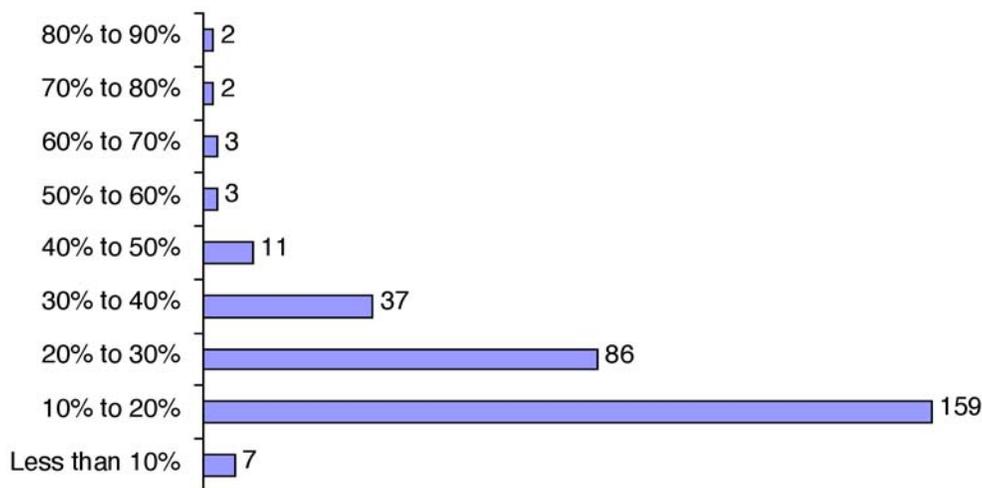
While the local property tax funds only a portion of local school expenses, it is a revenue source that

local voters can increase to ensure adequate funding for their local schools. Property tax revenue accounts for a low of 7 percent to a high of 86 percent of the cost of running local schools in Arkansas. However, nearly 80 percent of school districts receive between 10 and 30 percent of their revenue from the property tax (Figure 6). One in five, or 19 percent, of school districts receive more than 30 percent of their revenue from local property taxes.

County Governments

Like schools, county governments in Arkansas use the property tax to raise a substantial portion of their revenue. In 2001-02, the property tax accounted for nearly 18 percent of general revenue (Figure 7). Of the revenue generated locally, the property tax accounts for 23 percent of county government revenue.³ Reliance on the property tax

Figure 6. Share of School District Revenue From Local Property Tax, 2002-2003.



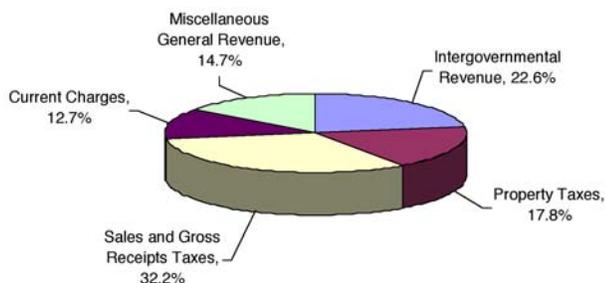
Source: Arkansas Department of Education, 2002-2003 Annual Statistical Report of the Public Schools of Arkansas and the Education Service Cooperatives

³Locally generated revenue excludes intergovernmental revenue, which is defined as revenue from federal, state and other local governments.

to generate county government revenue varies greatly among counties.

While property tax revenue for some county governments has increased over time, many counties receive a smaller percentage of revenue from the property tax today than they did in the past. This is because nearly all Arkansas counties (73) now use the local sales tax as a source of revenue, reducing their reliance on the property tax as a source of revenue.⁴ In 2001-02, Arkansas counties generated 31 percent of their general revenue from the sales tax.

Figure 7. Arkansas County General Revenue by Source, 2001-2002.

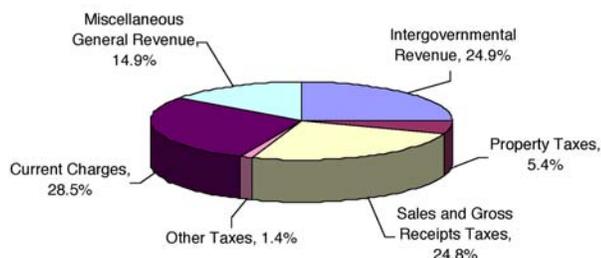


Source: U.S. Census Bureau, Local Government Finances by Type of Government and State

City Governments

City governments depend less on the property tax as a source of revenue than school districts and county governments. In 2001-02, the property tax accounted for just 5 percent of general revenue for city governments in Arkansas (Figure 8). As with counties, Arkansas cities rely less on the property tax to generate revenue today than they did in past years. The trend continues to be an increasing reliance on the sales tax to generate a larger share of

Figure 8. Arkansas City General Revenue by Source, 2001-2002.



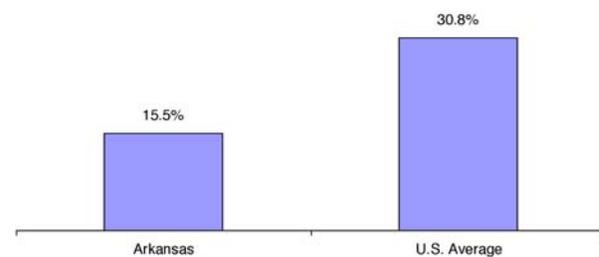
Source: U.S. Census Bureau, Local Government Finances by Type of Government and State

local revenue for city governments. The number of cities with a city sales tax has increased from 122 in the late 1980s to 253 in December 2004. City sales tax rates range from 0.25 to 3.5 percent on taxable goods and services with nearly two-thirds of Arkansas cities having a city sales tax of 1 percent.

Comparisons with Other States

Every state in the nation has a property tax. While a few states have toyed with the idea of eliminating the property tax, none has done so. Arkansas relies less on the property tax to generate revenue than most states. The property tax generated 15 percent of the tax revenue in Arkansas compared to a national average of 31 percent in 2001-02 (Figure 9). This translates to about \$376 per person in Arkansas, ranking it 49th among states in the amount of property tax revenue generated per person. Alabama collected a low of \$331 per capita in property tax revenue compared to New Jersey which collected a high of \$1,907 per person. The national average during this time period was \$992 per person.

Figure 9. Property Tax Revenue as Share of Total Tax Revenue (State and Local Tax Revenue), 2001-2002.

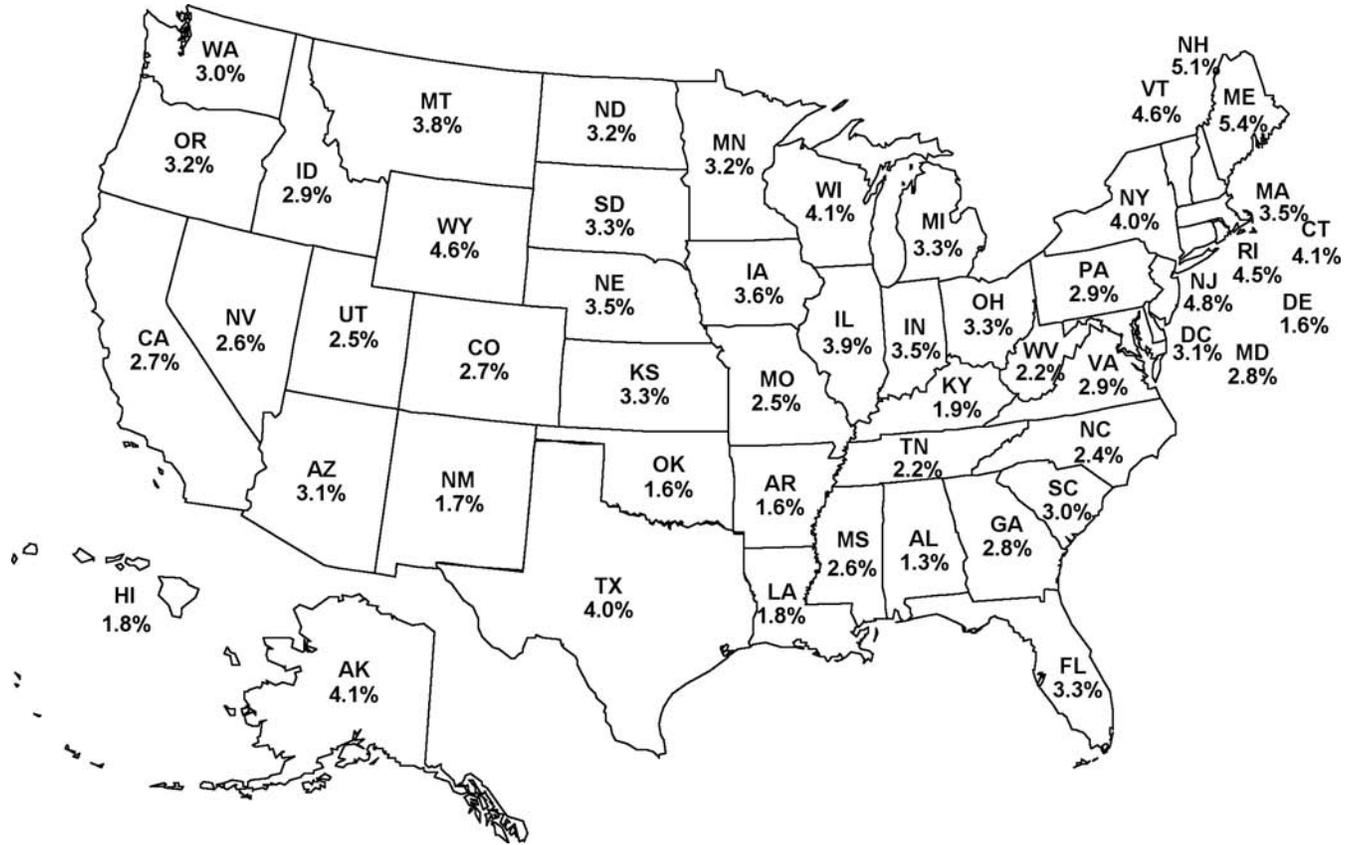


Source: U.S. Census Bureau, Local Government Finances by Level of Government

Another comparative measure is the amount of property tax revenue collected as a percent of personal income. Arkansas collected just over \$1 billion in property tax revenue in 2001-02, which was 1.6 percent of total personal income. The national average was 3.2 percent. Property tax revenue as a percentage of personal income collected in the 50 states ranged from a low of 1.3 percent in Alabama to a high of 5.4 percent in Maine (Figure 10). Arkansas ranked 48th among the states in property tax revenue collected as a percent of personal income. Thus, the amount of revenue generated by the property tax in Arkansas is low when compared to other states, even taking into consideration personal income levels.

⁴City and county sales tax data are available from the Arkansas Department of Finance and Administration web site (<http://www.state.ar.us/dfa/taxes/salestax>). As of December 2004, 73 counties are listed as having a county sales tax.

Figure 10. Property Tax Revenue as Percent of Personal Income, 2001-2002.



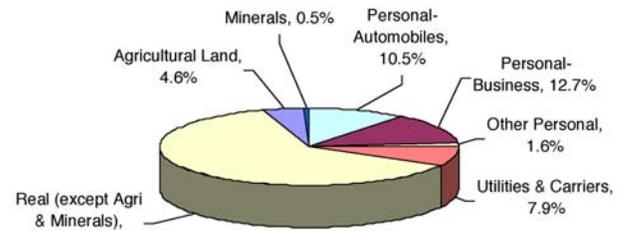
Source: U.S. Census Bureau, State and Local Government Finances by Level of Government, and U.S. Department of Commerce, Bureau of Economic Analysis, State Annual Income Estimates (2001)

Who Pays the Property Tax?

Property taxes are collected from commercial and industrial establishments, utilities and farms as well as from owners of residential establishments and individuals who pay personal property taxes. Real property (land and buildings) accounts for 67 percent of property tax revenue collected (Figure 11). Personal property owned by businesses accounts for nearly 13 percent of property tax revenue, while property owned by utilities and carriers accounts for another 8 percent. Personal property taxes collected on automobiles accounts for just over 10 percent of the property tax revenue.

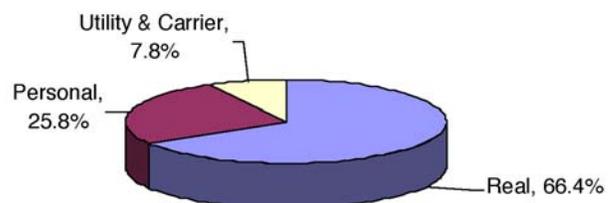
The assessed value of property owned in Arkansas provides the base on which property taxes are collected. In Arkansas, there are two kinds of property for which taxes are collected. Real property comprises most of the assessed value, making up two-thirds of Arkansas' property tax base (Figure 12). Just over one-fourth of the property tax base is personal property. Property owned by utilities and carriers is assessed separately from all other real and personal property and represents almost 8 percent of the tax base.

Figure 11. Source of Property Tax Collection in Arkansas, 2002.



Source: Arkansas Assessment Coordination Department

Figure 12. Property Assessments by Source in Arkansas, 2002.



Source: Arkansas Assessment Coordination Department

Summary

Historically, the property tax has played a significant role in funding schools and county and city governments. It is a tax collected by local county governments to provide local services benefiting local citizens. The property tax also plays a key role in maintaining a diversified tax base for Arkansas.

The property tax is administered, collected and distributed by local governments. Local citizens and officials decide how much property tax revenue is desired and how it will be allocated among local governments, school districts and special assessment districts.

Local schools use most of the property tax revenue for operating and maintaining primary

and secondary public schools in Arkansas. The property tax is a vital source of revenue for Arkansas' school districts. Revenue generated from property taxes contributes as much as 30 percent of the total yearly revenue in 80 percent of Arkansas' school districts. County and city governments and local community colleges also use some of the property tax revenue for making our communities a better place to live. County and city governments use the money to build and maintain streets and roads, provide for public safety, maintain our public libraries and enhance the quality of life in Arkansas.

For more information on Arkansas public finance, visit the Arkansas Cooperative Extension Service web site at www.arcommunities.org.

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