



Idea

and

Execution:

Enforcing the Homestead Exemption

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Standard Tax Package – R.I.G.L. §44-5-11.8

- ▶ Class 1: Residential Real Estate – 5 units or less
- ▶ Class 2: Commercial and Industrial Real Estate
- ▶ Class 3: Tangible personal property
- ▶ Class 4: Motor Vehicles and Trailers

Standard Options for Class 1

R.I.G.L. §44-5-11.8

Homestead exemption, “provided, however, that the actual effective rate applicable to property qualifying for this exemption shall be construed as the standard rate for this class against which the maximum rate applicable to another class shall be determined except in the City of Providence and the town of Glocester

Homestead Communities and Exemptions

- ▶ Central Falls 23.4%
- ▶ East Providence 15%
- ▶ Johnston 20%
- ▶ Lincoln 35%
- ▶ North Providence 20%
- ▶ Providence 50% (owner occupied) /
15% (owner non-occupied)
- ▶ West Greenwich 15%
- ▶ West Warwick 2-family homes only
- ▶ Woonsocket 40%

Stated and Effective Rates

	Full Rate	Reduced Rate
▶ Central Falls	\$22.95	\$17.58
▶ East Providence	\$20.74	\$17.84
▶ Johnston	\$24.75	\$19.80
▶ Lincoln	\$21.65	\$14.07
▶ North Providence	\$24.15	\$19.32
▶ Providence	\$31.89	\$15.99/\$27.11
▶ West Greenwich	\$22.30	\$19.80
▶ Woonsocket	\$32.25	\$19.68

Advantages

Flexibility

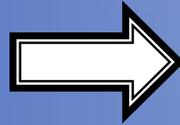
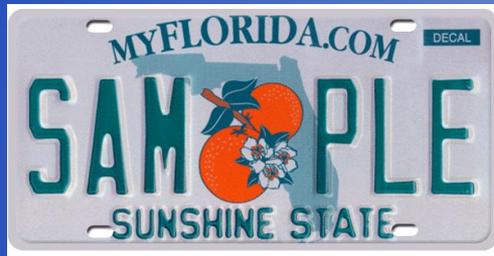
Provide incentives to advance policy



issue

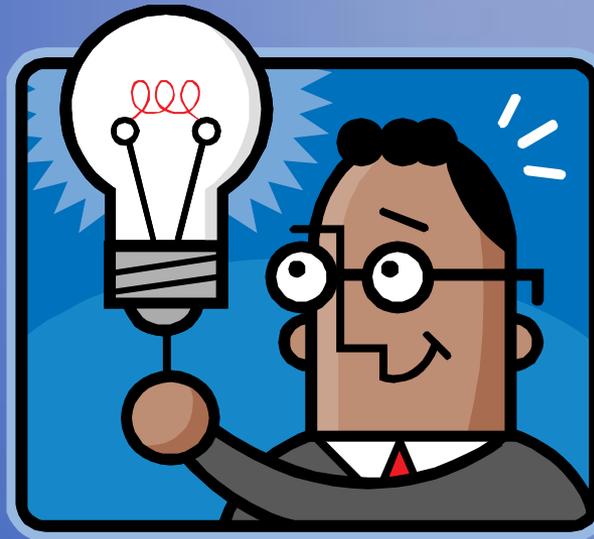
The Florida License Plate Issue

State Law Tools



- ANY FOREIGN VEHICLE PARKED OR GARAGED OVERNIGHT IN RI FOR 30 DAYS OR MORE AND IS OWNED BY A RESIDENT OF RI SHALL REGISTER THE VEHICLES AND PAY THE SAME FEES AS PAID BY OTHER STATE RESIDENTS. R.I.G.L. §31-7-1(b)
- ANY RESIDENT WHO OWNS A VEHICLE REGISTERED IN ANOTHER STATE SHALL FILE AN ANNUAL REPORT WITH DMV AND TAX ASSESSOR OF CITY OR TOWN IN WHICH HE RESIDES RIGHT TO OPERATE ON FOREIGN REGISTRATION WITH MAKE, MODEL AND REASON FOR REGISTERING IT IN THE FOREIGN STATE, WITH A \$500 FINE FOR NONCOMPLIANCE. §31-7-1(c).

Our Idea:



**Link the Homestead Exemption to
Local Motor Vehicle Registration**

Example: Making the Scofflaw Pay

- ▶ \$250,000 House
- ▶ \$30,500 Car

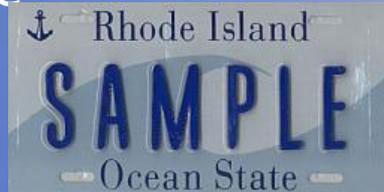
- ▶ Alternative 1:



- Real Estate Tax: $\$250,000 \times \$27.11 = \$6,766.63$
- Auto Tax: \$0
- Total Tax: \$6,776.63

Example: Incentive to Comply

- ▶ \$250,000 House
- ▶ \$30,500 Car
- ▶ Alternative 2:



- House: $\$250K \times \$15.95/K = \$3,987.50$
- Car: $\$30K \times \$60/K = \$1,800.00$
- Total: $\$5,787.50$



- Total Tax: $\$6,776.63$
- Scofflaw Penalty: $\$991.13$

Challenge

- ▶ Now that we have



- ▶ What is the best way to



it?



Your Suggestions



Idea #1: Find the Scofflaws

- ▶ Take the list of people with homestead exemptions
- ▶ Run a match against people paying motor vehicle tax
- ▶ Send a letter to people who do not have a match.

Problems

- ▶ Two data sets are not compatible.
- ▶ Quality of data is poor.
- ▶ Especially bad PR issues if people are wrongly accused of being scofflaws.

The Providence Windfall

- ▶ 2011 Cleanup Ordinance
 - All existing exemptions expire
 - Tighten up requirements for homestead
 - Everyone must reapply
- ▶ Experience
 - Massive project to reapply
 - Increase in tax base:
 - \$3 million from removal of real estate exemptions
 - Growth of motor vehicle registrations

Try it at Home:

Example 1: North Providence

- ▶ \$200,000 House, \$25,500 Car

- ▶ Alternative 1:



- Real Estate Tax: $\$200,000 \times \$24.15 = \$4,830.00$
- Auto Tax: \$0
- Total Tax: \$4,830

North Providence (cont.)

- ▶ \$200,000 House, \$25,500 Car

- ▶ Alternative 2:



- Real Estate Tax: $\$200,000 \times \$24.15/1000 \times .8 = \$3,864.00$
- Auto Tax: $\$25,000 \times 41.95/1000 = 1048.75$
- Total Tax: $\$4,912.75$



Alternative: \$4,830 + Foreign Auto Tax

Example 2: East Greenwich

▶ Tax Rates:

- \$20.14 Real Estate
- \$22.88 Motor Vehicle (\$6000 exemption)
- \$46,320 Elderly Exemption (ages 70–74)

▶ Example: \$31,000 car, \$250,000 Home,

▶ Age 72

- Auto: Florida Rate 
- House: $\$250,000 \times \$20.14 / \$1000 = \$5,035$

East Greenwich, Part 2:

- ▶ \$250,000 Home, \$31,000 Car,
Age 72



- Auto Tax = $\$25,000 \times 22.88 / \$1000 = \$572.00$
- Real Estate Tax = $\$203,380 \times 20.14 = \$4,094.86$
- Total Tax = $\$4,666.86$



- alternative: $\$5,035.00$
- Scofflaw Penalty: $\$369.14$

Disadvantages of Exemption Program

- ▶ Complexity
 - Presentation of rates
- ▶ Timing Issues
 - Mid-year closing problem
- ▶ Enforcement
 - Certification on tax forms
 - Temporary registrations
 - Neighbor enforcement

Time Lag Issue

- ▶ Assume buyer qualified for 50% exemption, but house is only at 15% exemption. \$250,000 house. Buyer qualifies for \$15.95, while house rate is \$27.11.
- ▶ Assume closing of February 1, 2013. Buyer pays \$27.11 for 11 months, until December 31, 2013.
- ▶ Tax bill for 2014 has benefit of exemption.
- ▶ In reverse – when bank forecloses on home with 50% exemption, bank keeps it for months.

Your Ideas

