

Taxing 9 to 5

What Does the Research Say About Property Tax Caps?

Introduction

This brief evaluates existing research to identify the best type of property tax cap to implement in Tennessee and draws on research findings to evaluate claims made by cities and counties that a property tax cap would be detrimental to local government. Specifically, the brief answers the following questions:

- » How do property taxes work now in Tennessee?
- » What is the impact of property tax caps on local government?
- » Do property tax caps cause financial ruin?
- » What is the best type of property tax cap?

Key Takeaways

- » Tennessee is one of only four states without some form of statutory cap on local property taxes.
- » Tennessee has a Truth in Taxation law that establishes a process for identifying the certified tax rate (CTR) after property reappraisals. The CTR lowers or raises the rate so local governments collect the same amount of revenue after a reappraisal. While this process may be viewed as transparent, it doesn't function as a property tax cap since local governments can raise taxes above the CTR at will.
- » During the 2026 legislative session, Tennessee lawmakers attempted to provide relief and financial stability for taxpayers with SB2064/HB1873, which would have capped local property tax increases at two percent plus

inflation, with a referendum option for larger increases. The bill failed due to opposition from local governments, which claimed a property tax cap would cause financial ruin.

- » Levy caps, a limit on revenue, are the most effective strategy for encouraging fiscal responsibility, especially when paired with a referendum on tax increases above the cap.
- » Property tax caps do not cause financial ruin or compromise core government services. In fact, as intended, property tax caps prompt local governments to restrain spending, live within their means, and in some cases, create additional revenue streams.
- » Tennessee should adopt a levy cap and include a referendum option for voters to approve large increases.

Background

Tennessee is one of only four states, along with Vermont, New Hampshire, and Kansas, without some form of local property tax cap.¹ Local governments relish this freedom and abuse it annually. For example, in July 2026, Johnson City approved a 20 percent property tax increase to in part pay for a new \$37 million aquatics center (\$55 million with interest), even though the city had existing aquatics facilities.² Johnson City is not unique. Each year, dozens of counties and cities impose exorbitant property tax increases to pay for frivolous expenses such as bike lanes, stadiums, and splash pads, without taxpayer input or demonstrated improvements in core government services.

During the 2026 legislative session, Tennessee lawmakers rallied around this issue and proposed

A Quick Property Tax Primer

How Do Property Taxes Work in Tennessee?

In Tennessee, property taxes are based on the reassessed value of property. Assessment percentages vary depending on the classification of property, with residential, farm, commercial, public utility, and business properties being assessed at different rates. Local governments set a rate in dollars and cents and collect that rate from property owners per \$100 of assessed value.

Every four to six years, Tennessee counties are required to conduct a general property reappraisal. Afterward, a new tax rate is calculated to provide the same property tax revenue as the prior year. For example, before the recent reappraisal, Nashville's property tax rate was \$3.254 per \$100 of assessed value for the city's more urban areas.³ The new revenue-neutral tax rate after the reappraisal was \$2.222.⁴ This updated rate is known as the certified tax rate (CTR). Similar to a cap on assessment limits, the CTR prevents local governments from automatically receiving a windfall of new revenue from taxpayers just because home values have risen.

Because the CTR is based on the total revenue collected from property taxes, individual property owners may still receive a different tax bill. If one's property appreciated more than the county average, that property owner's taxes will go up. Meanwhile, homeowners whose property appreciated less than the average will pay lower taxes as a result of the reappraisal.

It is important to note that cities and counties may adopt a tax rate that is higher than the CTR, thereby raising overall taxes. If the locality wishes to adopt a new rate higher than the CTR, it must place an ad in a local newspaper, send an affidavit to the State Board of Equalization documenting the ad's publication, and then adopt the new higher tax rate at a public hearing. That is exactly what Metro Nashville did after the most recent reappraisal, adopting a rate of \$2.814, well above the CTR of \$2.222.⁵

While it does increase transparency, the "Truth in Taxation" law does not prevent tax increases. Data show over 30 percent of reappraisals from 2015 to 2021 resulted in tax increases over the CTR, the revenue-neutral rate calculated after reappraisals.⁶

SB2064/HB1873, which would have created a property tax cap set at two percent annually, plus inflation. The bill also included a provision allowing voters to approve increases above the cap via referendum. This bill would have provided relief and predictability for hardworking Tennesseans and created the truest form of local control by allowing voters a say in large tax increases.

Unfortunately, after passing the House Cities and Counties Subcommittee, the bill faltered, largely due to opposition from local governments. City and county governments claimed such a cap would erode local control and leave them in financial ruin, unable to provide basic core government services. With 46 states having property tax limitations, this claim can easily be tested by examining existing research on property tax caps.

The Three Main Types of Property Tax Caps

When researchers evaluate the impact of property tax caps, they tend to focus on a single state or a specific type of limitation, rather than property tax caps broadly. Before summarizing the research, it's important to understand the three main types of property tax caps that states adopt.⁷

- » **Levy Caps** — A levy cap restricts the total amount of revenue that a local government can collect from property taxes each year. For example, if a city collected \$100,000 in property tax revenue in 2025 and the cap is set at three percent annually plus inflation, then the city could collect up to \$103,000 in property tax revenue in 2026, plus the prior year's inflation percentage. Typically, levy caps exclude revenue collected from new construction and do not impact assessments. Many states pair a levy cap with a voter referendum allowing the cap to be exceeded with voters' permission.
- » **Rate Caps** — A rate cap limits the maximum property millage (expressed in cents on the dollar) that a local government can raise property taxes each year by creating a hard ceiling on the amount, or through a rollback formula tied to reappraisal. For example, if a county has a property tax rate of 35 cents per \$100 of assessed value and state law specifies a 50-cent rate cap, it may increase the rate to any amount up to, but not exceeding, 50 cents per \$100 of assessed value.

» **Assessment Caps** — An assessment cap limits how much a property’s assessed (taxable) value can increase each year, regardless of how much the property’s market value changes. Under an assessment cap, the assessed value typically doesn’t change until the property is sold, at which point it resets to the property’s fair market value.

What Does the Research Say?

Rate Caps

As Figure 1 shows, standalone rate caps are the least common type of cap adopted by states, so there is little research on them. Rate caps limit how much a local government can raise property taxes either by setting a maximum rate that cannot be exceeded

How States Cap Property Taxes

Levy caps, rate caps, and assessment caps limit local property tax growth in 46 states. Tennessee is one of just four states with no cap of any kind.

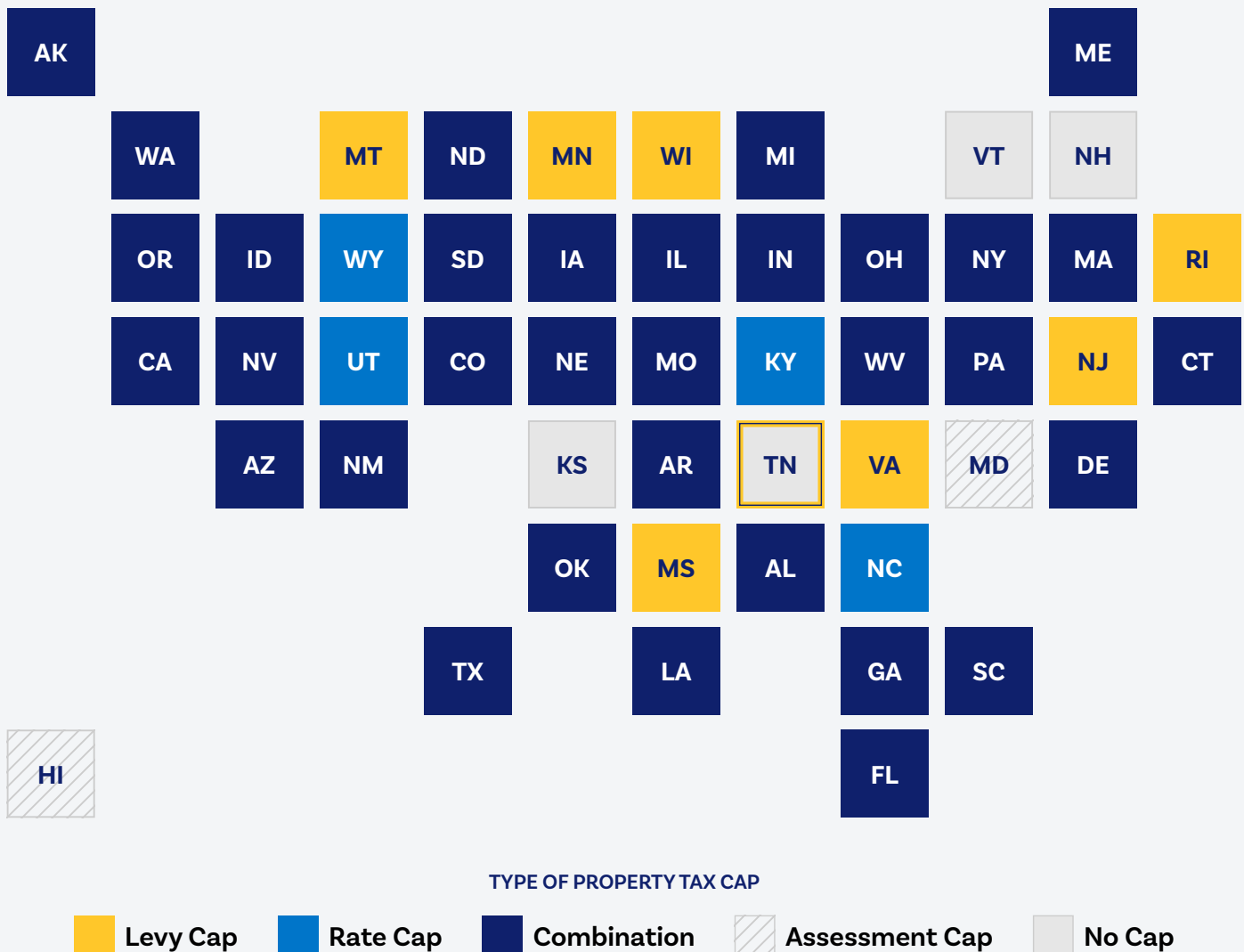


Figure 1. Nearly all states have some form of property tax cap, with the majority having more than one type.⁸

or by specifying the maximum amount, usually expressed in cents on the dollar, by which a local government can raise the property tax rate. Despite the lack of research on rate caps, common sense demonstrates the ineffectiveness of a pure rate cap. Because assessed property values increase over time, a local government can keep the same rate for years, or even lower the existing rate, while actually increasing property taxes.

For example, Nashville voters passed a referendum in 2006 that would limit the rate to \$4.69 per \$100 of assessed value, yet increasing property values have made it unlikely the city ever gets anywhere near that limit.⁹ Despite multiple increases in the rate above the CTR since 2006, the rate now sits at \$2.814. Although the rate has lowered over time and sits well below the \$4.69 limit, massive increases in property values have allowed the city to pull in billions more in property tax revenue.¹⁰ By limiting only the rate side of the property tax calculation, elected officials like Nashville's mayor claim the "lowest property tax rate since the founding of [Metro Nashville]," even though property values and a tax rate increase after the reappraisal will lead to higher tax bills.¹¹

Rate caps by themselves do not function as protection against assessment increases or property tax bills. As such, states that incorporate some element of a rate cap into their strategy often pair it with another mechanism. For example, Kentucky has a constitutional rate cap, but local governments can freely adopt a "compensating rate" that keeps property tax revenue the same after a reappraisal. Local governments can also exceed the compensating rate but must obtain public approval to do so.¹²

Tennessee's CTR process demonstrates the ineffectiveness of a standalone rate cap. Although it is not technically a binding rate cap, it does require calculating and communicating what rate would be needed, after a reappraisal, to keep revenue neutral – similar to Kentucky's compensating rate. Although this Truth in Taxation law is helpful, it does not prevent local governments from imposing

unexpected, large tax increases. Local governments frequently claim to "lower" taxes by adopting the new CTR or increasing the rate slightly above the CTR, even though the value of the taxable property pool increases enough that a lower tax rate still yields higher property tax revenue.

Assessment Caps

Assessment caps are the most widely studied type of cap, and the research is clear: Standalone assessment caps don't provide predictability for taxpayers or constrain local government spending. According to a review of thirty years' worth of assessment cap outcomes, such caps can create significantly different property tax obligations on owners of identical properties, disproportionately shift the tax burden on certain homeowners, restrict mobility in the housing market, and effectively disconnect property value from property taxes entirely.¹³

These broad research findings are echoed when examining specific states that have implemented assessment caps. For example, a study conducted on Michigan's assessment cap finds similar results, including an estimated \$3.4 billion in savings per year that disproportionately benefited long-term, wealthier property owners, while newer home buyers shouldered a larger amount of the tax burden.¹⁴

Focus: California's Proposition 13

California's Proposition 13 is perhaps the most well-known assessment cap in the country. Under Proposition 13, a property's assessed value is established at the time of purchase and can increase at the rate of inflation, but no more than two percent annually. This cap remains in effect until the property is sold, at which point it resets to current market value. In addition, the property tax rate is fixed at one percent of assessed value.¹⁵ Proposition 13 has been studied widely, and like other assessment caps, research has demonstrated long-term negative effects, including:

- › Significant inequality in tax burdens amongst owners of identical property in the same neighborhood. California's Legislative Analyst's Office finds owners of identical property paying between \$1,350 and \$7,500 more in property taxes based only on when the home was purchased.¹⁶
- › A "lock-in" phenomenon in housing, where owners stayed in their homes longer than they otherwise would in an effort to reap the

financial benefits of a frozen assessment. Research estimates an additional three years for homeowners in the Bay Area and 2.3 years for homeowners in San Francisco. Such lock-in effects have the secondary effect of worsening housing shortages in popular areas.¹⁷

Bottom line: Assessment caps like California's Proposition 13 distort the housing market, shift property tax burdens to younger families, and don't cap government growth or spending.

Levy Caps

Research on levy caps demonstrates they are the most effective at limiting government spending and growth without causing the housing-market distorting effects of an assessment cap or the dishonest shell game of rate caps.

Illinois' Property Tax Extension Limitation law sets a levy cap at the lesser of five percent or the change in inflation as measured by the Consumer Price Index. Research on Illinois' cap finds that it constrained growth of the property tax levy and constrained school operating spending, and that constraint strengthened over time.¹⁸

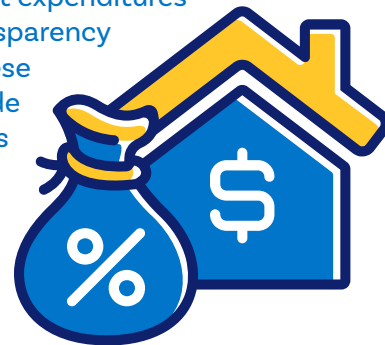
Research on Massachusetts' levy cap, which caps local property taxes at 2.5 percent plus new growth, with a referendum override option, finds the cap had a smaller-than-anticipated fiscal impact. This was because voters often did approve significant increases over the cap – evidence that a cap plus voter referendum option can serve as an important transparency and voter accountability mechanism reflective of community preferences.¹⁹ Another study finds Massachusetts cities and towns where successful voter override occurred enjoyed stronger fiscal conditions.²⁰

New York's levy cap limits school and local government growth to the lesser of two percent annually or the rate of inflation, with a 60 percent voter override option. Research from the Rockefeller Institute of Government shows that New York's Levy cap caused average annual school property tax growth to drop 4.7 percentage points, saving taxpayers \$16-billion statewide. The research also showed New York's levy cap led to a significant increase in the passage of school budgets, suggesting voters found new, more fiscally responsible budgets easier to support. Unlike Massachusetts, voter overrides are rare in New York for school district budgets. Similarly, roughly three-quarters of New York's other local government

entities stay under the cap each year, while about one-quarter exceed it via a board vote, suggesting the cap also does not constrain local governments' ability to provide core government services.²¹

Arizona Case Study:

Arizona is dubbed the “Gold Standard” when it comes to property taxes, with one of the lowest per-capita property tax burdens in the nation, and the state has earned that moniker by implementing all three types of property tax caps, in addition to limits on local government expenditures and additional transparency requirements.²² These requirements include strict spending caps that cannot go above inflation and population growth (unless approved by a referendum), a two percent plus new construction levy cap, a one percent limit on the tax burden of the value of a home, and a five percent limit on the assessed value.



Despite multiple property tax caps, no local government, from the major metro of Phoenix to small, rural towns, has declared Chapter 9 bankruptcy.²³ Though property tax cap critics have claimed such a restriction would be sure to bring financial ruin, Phoenix has proven them wrong, posting a surplus every year for the last decade.²⁴ Many cities and towns in Arizona don't levy a property tax at all, instead using other revenue sources. Sedona, Kingman, and Apache Junction range in population and rely on other revenue sources while still providing core government services.²⁵

Do Property Tax Caps Harm Local Government?

Of all available studies on property tax caps, none have tied caps to the collapse of core government services or municipal bankruptcy. Instead, these studies consistently find that effective property tax caps cause local governments to pursue balanced budgets and spend more efficiently.

States like Georgia have found ways to continue raising needed revenue, but with transparent voter approval, through strategies like a Special Purpose

Local Option Sales Tax, which is a voter-approved, time-bound local sales tax directed towards special projects, such as school construction or road repair. Georgia law requires any surplus revenue generated by the special tax program to be used to reduce property taxes.²⁶ Research indicates that successful voter overrides via the referendum option improve budgetary balance rather than increasing spending.²⁷ This finding suggests pairing a property tax cap with a referendum override functions exactly as intended by forcing local governments to spend smarter, rather than forcing them to sacrifice core government services. No evidence has been found that property tax caps lead to defaults on loan payments or impact credit ratings.

Conclusion: Next Steps for Tennessee

The research conclusions are clear: Tennessee should join 46 other states, including all its southeastern peers, and adopt a property tax cap to protect Tennesseans from unexpectedly large property tax hikes. Importantly, the type of property tax cap is critical. Assessment caps, when used alone, can have the unintended consequence of locking property owners into their homes and shifting the tax burden to younger and new homeowners. In contrast, rate caps are ineffective in a vacuum at lowering property taxes. A levy cap, potentially paired with another property tax cap type, is the most effective strategy for slowing local government spending growth while providing stability and consistency for taxpayers.

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