

Making Sense of Assessments

With statewide values on existing residential properties increasing at more than 6% annually, property owners in some parts of the state are anxious about rising assessments. This is especially true now when assessment rolls are open for public inspection and local boards of review begin hearing owner appeals.

How Assessments Determine Taxes

Many taxpayers fear that a higher assessment will automatically mean higher property taxes. But contrary to popular belief, higher assessments do not guarantee higher property taxes. In fact, it is even possible for an individual's assessment to rise and property taxes to fall.

This can better be seen by understanding the role assessments play in figuring property taxes. Property assessments are used to apportion the total property taxes to be collected - the tax levy - among a community's property owners. An owner's share of the total tax levy is the same as the property's share of total assessed value. For example, if an individual property's assessed value represents 1% of a community's total assessed value, the owner will pay 1% of the community's property taxes.

When the tax levy remains unchanged, an individual tax bill can only go up if the property being taxed grows sufficiently in value to represent a larger part of a community's total valuation. And this can only happen when an individual assessment increases faster than total community assessed values.

A "Smaller," Simpler View

Still confused? Perhaps a trip to Smallville - a small, mythical Wisconsin hamlet where finances are vastly oversimplified - will help. During 1994, there were 4 homes in Smallville, each valued at \$50,000. Total assessed value in the community was \$200,000 (\$50,000 x 4 homes). Each of the 4 owners - Ms. Ay, Mr. Bee, Mrs. Cee and Mr. and Mrs. Dee - owned 1/4 of Smallville's property value; so each paid one-fourth of the property taxes.

To illustrate: Ms. Ay had a home assessed at \$50,000. It accounted for 25% of Smallville's total assessed value of \$200,000. Since the total property tax levy was \$8,000, Ms. Ay's share was 25%, or \$2,000. In the conventional but often confusing jargon of municipal finance, the assessed value times the tax, or mill rate, of \$40 per \$1,000 of assessed value ($\$8,000/\$200,000$) yields the taxes due: $\$50,000 \times \$40 = \$2,000$.

Assessments Jump in Smallville

Smallville had not been revalued since before 1990. State law requires assessments (by class of property, e.g., residential or agricultural) to be within 10% of market value once every 5 years. Because Smallville's were not, the village board hired an assessor to revalue the 4 properties in the community.

As a result, Smallville's total assessed value increased 100%, from \$200,000 to \$400,000. Ms. Ay's assessment jumped 60% to \$80,000. Assessments on the homes of Mr. Bee and Mrs. Cee doubled, going from \$50,000 to \$100,000, and the Dee family's assessment rose 140% to \$120,000 on their home. All, except Mrs. Cee, worried their property tax bills received in December would skyrocket to match the jump in assessments.

Having gone through a revaluation before, Mrs. Cee was less anxious. She knew that the total 1995 tax levy was not going to change. She studied the new 1995 assessment roll and shared her findings with her neighbors.

- **A Tax Cut** - Ms. Ay's assessment climbed 60%, but that increase was less than the 100% jump for Smallville as a whole. Her share of the village's total assessed value fell from 25% in 1994 to 20% ($\$80,000 / \$400,000$) in 1995. Said Mrs. Cee to Ms. Ay, "The total tax levy is going to stay at \$8,000. You now own 1/5 of Smallville's total property value, so you will pay 1/5 of the taxes." "See," she scribbled, "1/5, or 20%, of \$8,000 is \$1,600... your tax bill will drop from \$2,000 to \$1,600."
- **No Tax Change** - Mrs. Cee turned to Mr. Bee. "Our 1995 property tax bills are going to be the same as last year - \$2,000," she told him. She explained that both their homes increased 100% in value, the same increase as the

village as a whole, and added, "Our homes still each represent 25%, or 1/4, of Smallville's assessed value. Because the total tax levy will still be \$8,000, we'll each pay \$2,000 - same as last year."

- **Tax Increase** - The Dees' home was now assessed at \$120,000, 140% higher than the previous \$50,000. Their assessed value increased faster than total values for the village (140% vs. 100%). This meant their home now represented 30% (\$120,000/\$400,000) of Smallville's valuation, compared to 25% last year. It also meant they would pay 30%, or \$2,400, of the \$8,000 tax levy in 1995, as opposed to 25%, or \$2,000, last year. The Dees were not pleased, but they knew their riverfront location meant their home would sell for more if put on the market.

More Spending, More Taxes

In the soft real estate market of 1996, assessments in Smallville did not change. Total assessed value in the village was \$400,000 - same as in 1995. However, the total property tax levy grew 25%, from \$8,000 to \$10,000. The village, county and school district all increased spending and taxes.

As the table shows, when spending and the property tax levy grow, individual property tax bills are sure to keep pace even if assessments remain unchanged. Ms. Ay, who enjoyed a tax reduction as a result of the 1995 reassessment, saw her taxes rise 25% - from \$1,600 to \$2,000. Her home accounted for 20% of Smallville's total property value, and she paid \$2,000 in property taxes (20% of \$10,000). Her 3 neighbors also had tax increases.

Conclusion

Higher assessments do not automatically mean higher property taxes. The key is the rate of increase in a property's assessment relative to other properties. If total assessed values in a community rise 10% and if the total tax levy remains unchanged, an increase greater than 10% will mean a tax hike, while an increase smaller than 10% will mean a tax reduction. Ultimately, it is increases in government spending and higher property tax levies-not higher assessments-that will most directly affect the property tax bill. When taxpayers understand this, they can view regular updating of assessments, if done correctly, as a way to ensure tax fairness. Active citizenship is the best way to affect the spending level and the resulting property tax levy.

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