FOCUS

In brief   01.20.2010 • No. 1

With state aid cuts and a volatile real estate market, changes in local property tax bills from last year to this vary greatly—and taxpayer questions are unusually plentiful. Basic concepts and specific examples are offered here to raise citizen understanding of Wisconsin's confusing property tax system.

Capitol notes

■ *Gov. James Doyle (D) signed into law a bill requiring teaching of labor history in Wisconsin schools, the first of its kind in the U.S. Supporters say the law fosters greater understanding of the state's rich labor tradition, while opponents argue it is another unfunded mandate on public schools.*

■ *Based on work of the Governor's Global Warming Task Force, the legislature will soon begin work on the Clean Energy Jobs Act. The legislation proposes more aggressive renewable energy standards and efficiency goals, while lifting the state's moratorium on nuclear construction. Business groups worry about the economic impact of the proposals, while state officials expect them to create a minimum of 15,000 new jobs by 2025.*

■ *Three UW System schools made Kiplinger's Personal Finance Top 100 Best Values among public universities list. UW-Madison was 14th, followed by UW-La Crosse (43) and UW-Eau Claire (67). The University of North Carolina at Chapel Hill was seen as the nation's best value.*

Understanding property tax surprises

Questions about property taxes abound every year at this time, but they are particularly plentiful now. Part of the reason is short-term: job losses, a depressed real estate market, and rare cuts in state aid to local governments and schools.

Other reasons for property tax confusion are timeless. Many taxpayers do not understand how individual properties and entire communities are valued for tax purposes. And even fewer appreciate how tax changes vary within a county or school district due to local conditions.

Basic concepts

To avoid such confusion, it helps to understand a few concepts about Wisconsin's property tax system:

• A municipality is responsible for determining the market value (assessment) of each property within its boundaries.

• Not all municipalities keep their assessments current, although some large ones can, thanks to computers and full-time staff. However, many municipalities update them only when state law requires it.

• With communities doing revaluations sporadically, county and school tax levies cannot be divided up (apportioned) among underlying municipalities using assessed values. To ensure fair apportionment of taxes, the state Department of Revenue estimates the full market (equalized) value of entire communities (not individual properties) each year.

This means that Wisconsin has two kinds of values—assessed values for individual properties and equalized values for larger taxing areas, such as towns, villages, or school districts.

In addition to these "givens," one additional insight aids understanding of how property tax increases or decreases can vary among neighborhoods in a single community or among municipalities in a school district or county. The amount of property taxes owed can be understood without mastering assessment, equalization, or the confusing math of tax rates, for the process is similar to slicing and comparing pieces of cake.

Slicing up small-town taxes

Suppose small town "A" has five properties (1, 2, 3 . . .), each assessed at $100,000. The total assessed value of Town A is $500,000 (5 x 100,000). The value of property #1 represents one-fifth (or 20%) of A's total value (100,000/ 500,000 = 0.2, or 20%).

When tax time comes, property #1 will pay 20% of taxes levied in the town. Why? If owner #1 owns one-fifth of Town A's total assessed value, she pays one-fifth of total property taxes (see below).

Slicing up school taxes

What happens when a school district (or county) needs to collect property taxes from its multiple municipalities?

□ *Among municipalities.* Suppose a school district contains two towns (A and B), each with an equalized value of $500,000, and one village C, with an equalized value of $1 million (m). The total value of the school district is $2m (500,000 + 500,000 + 1m).
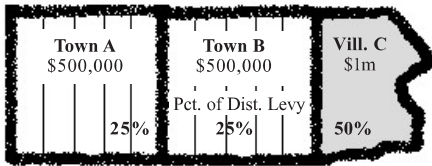
Property Values (l.), Taxes (rt.) in Town A
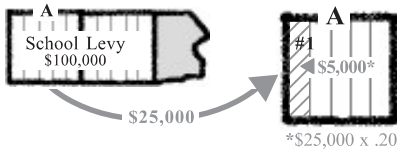Share of Property Value = Share of Taxes
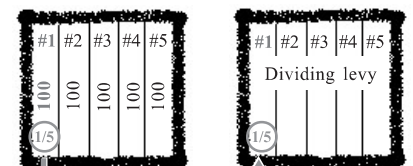
#1 owns 1/5 of property value . . . and pays 1/5 of taxes.

Apportioning School Levy to Municipalities

Town A has 25% of school district value (500,000/2m) and must pay 25% of the district levy (.25 x $100,000 = $25,000). B is also responsible for 25% of school taxes, and C must pay the remaining 50%.

...And Dividing It Among Owners

Determining the school tax for owner #1 in Town A:
A is responsible for 25%, or $25,000, of the school district levy. Owner #1 has 20% of town value and pays 20% ($5,000).

No Tax Hike, But Major Tax Shifting as Some Tax Bills Rise as Value Changes Vary

	Example 1			Example 2				Example 3			
	Value Type*	Pct. Subt.	Tax	Value Type*	Pct. Subt.	Tax	Pct. Chg.	Value Type*	Pct. Subt.	Tax	Pct. Chg.
Sch. Dist.	$2000 e		$100	$2500 e		$100		$2000 e		$100	
Town A	500 e	25	25	1,000 e	40	(40)		1,000 e	40	40	
Town B	500 e	25	25	500 e	20	20		500 e	20	20	
Village C	1,000 e	50	50	1,000 e	40	40		1,000 e	40	40	
Subt.	2,000		100	2,500		100		2,500		100	
Town A:											
Owner #1	100 a	20	5	100 a	20	(8)	60	250 a	25	10	(100)
#2	100 a	20	5	100 a	20	8	60	100 a	10	4	-20
#3	100 a	20	5	100 a	20	8	60	200 a	20	8	60
#4	100 a	20	5	100 a	20	8	60	200 a	20	8	60
#5	100 a	20	5	100 a	20	8	60	250 a	25	10	100
Subt.	500		25	500		40		1,000		40	

Notes: All dollars in thousands.* Type of value: equalized value (e) assessed value (a).

When the school district asks for property taxes, it divides its levy among the three municipalities (see above), according to their respective equalized values. Town A, with $500,000 in equalized value, represents 25% (500,000/2m) of total district value. If the total school levy is $100,000, A's share of that is also 25%, or $25,000 (.25 x 100,000).

☐ *Among property owners.* But how does Town A get $25,000 to pay the school district? Taxes within the town are again divided among owners according to their shares of total assessed value. The $25,000 in school taxes is divided up the same way: Owner #1 owns 20% of A's assessed value and pays 20% of the school tax, or $5,000 (see above).

Explaining the unexplainable

The preceding discussion is summarized in the table above (example 1). Owner #1's $5,000 school tax bill results from her share of town assessed values (20%) x her town's share of school district equalized values (25%) x the district's tax levy ($100,000).

Slight changes in the original example can result in tax changes ranging from -20% to +100% for individual owners in Town A, *even though the school levy remains unchanged* at $100,000. In the second example, Town A's equalized value is increased from $500,000 to $1m, while owners' individual assessments are unchanged. This could happen if the state increased Town A's equalized value by $500,000 to reflect a large new lakefront development nearby, while the town did not update its assessments. The town share of district school taxes jumps from 25% to 40% and every owner in A experiences a 60% tax increase ($5,000 to $8,000).

In the third example, Town A updates its assessments to reflect development of selected parcels. Owner #1 now has 25% of town assessed value, and faces a 100% tax hike. Owner #2's share of value drops to 10% and he enjoys a 20% cut in school taxes.

These examples are extreme but clearly show that individuals can face large tax increases or cuts, even though the overall situation changes little.