

Focus

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In brief

December property tax bills are just around the corner. Assessment increases often lead taxpayers to expect a tax increase. Official talk of tax rate cuts often leads citizens to expect lower tax bills. Neither expectation is necessarily correct. Taxpayers need to focus on what matters most: proposed budgets and tax levies.

Capitol notes

■ Rasmussen Reports released tracking poll results throughout 2006. A common story in Midwest industrial states was early difficulty for Democratic candidates followed by comfortable leads: Illinois (-6 pts. in April, now +8); Michigan (-5 in July, now +11); Ohio (+4 in Jan., now +12); Pennsylvania (-3 in April, +18 now).

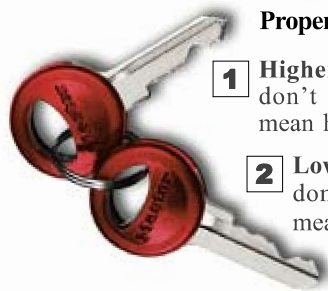
Wisconsin is different. For much of the year, the Democratic lead has varied little—between four and eight points. Latest October results showed no change (+4). In Minnesota and Iowa, party candidates have traded leads several times.

■ Riddled with small deductions and exemptions that few taxpayers use, Wisconsin's income tax is unnecessarily complex. Finding the same on the federal level, Oregon Senator Ron Wyden (D) urges a bipartisan reform effort, such as the successful Reagan-Bradley package of 1986.

Two keys to property tax understanding

Focus has not recently discussed assessment. Responding to requests, we return to the topic. Still misunderstood, tax rates are also covered.

Local governments are busy setting property tax levies for the coming year. December tax bills can't be far behind. With them invariably comes surprise, relief, or anger. Two of the most common causes are confusion over assessment and confusion over tax rates.



Property Tax Keys

- 1 Higher assessments don't necessarily mean higher taxes.
- 2 Lower tax rates don't necessarily mean lower taxes.

Many property taxpayers typically and incorrectly believe that: (1) an increased assessment means a tax increase; and (2) official promise of a reduced tax rate means a tax cut. Neither is necessarily true.

Detour: Values confuse issue

Much of the confusion about assessment and tax rates has to do with a third factor: property values. If values never change, assessments would never have adverse tax consequences . . . and tax rates would rise and fall with state and local budget decisions.

Of course, property values do change. The market for most types of property in most parts of the state has, until recently, been strong. Since 2000, the total value of Wisconsin residential property has increased an average of almost 10% annually.

Such rapid growth allows public officials to tout falling tax rates, even if they are raising taxes. And it means that assessments increase from time to time. Back to the confusion both cause.

Higher assessments

If explained in the usual way drawing on technical tax terms, an assessment increase can be daunting. However, understanding one important concept helps: A community's total tax levy is divided among individual properties according to each owner's share of total community property value.

Thus, if you own 1% of a community's total value, you pay that same 1% of total property taxes. Suppose your home and lot are assessed at \$200,000 and the total value of your community is \$200 million (m). Further suppose that the community's total property tax levy is \$2m. You own 0.1% of the community's value, so you are responsible for 0.1% of the levy, or \$2,000 ($\$200m \times 0.1\%$).

Does a rising assessment guarantee a tax increase? Not at all. What matters is not the dollar value of the assessment but your share of total community valuation *relative* to other taxpayers. Consider a few simple examples in a town with only two properties, each valued at \$100,000, and a town tax of \$4,000.

First case. In the first scenario just outlined, each of the two homeowners accounts for one-half of town value ($\$100,000/\$200,000 = 1/2$). So each will pay one-half of town taxes, or \$2,000 ($1/2$ of $\$4,000 = \$2,000$).

Second case. Now, assume the town's assessments are updated and each home is now worth \$200,000. One owner immediately begins to worry about his \$2,000 tax bill doubling. But will it? Each owner still accounts for one-half of the town's value ($\$200,000/\$400,000$), and each still pays one-half of the taxes ($\$4,000 \times 1/2 = \$2,000$) that the town levies.

The assessments doubled, but the tax bills remained the same. Why? First, each owner's home value increased at the same rate (100%), and each still owned the same share of the town's total value. And, second, the \$4,000 town levy did not change.

Third case: More spending. What if the levy did change? Suppose the town asks for 50% more taxes, or \$6,000. Even though each owner's share of town value remains one-half, each must now pay half of \$6,000, or \$3,000. Note that the tax increase is not due to the assessment change but, rather, to the town's tax increase.

Fourth case: Assessment change. The cause of tax increases is often growth in budgets and tax levies. However, there are times when an assessment change can mean a higher or lower property tax.

The following example illustrates how changing assessments can lead to higher taxes for some and lower taxes for others. The owners of the two \$100,000 homes again receive assessment increases, but this time the increases differ. One owner's valuation doubles, as before, to \$200,000. But the other's triples, soaring to \$300,000. The town's total value is now \$500,000, but one individual owns two-fifths (\$200,000/\$500,000) of the town's total value and the other owns three-fifths (\$300,000/\$500,000).

Finding the Tax Rate

$$\text{Tax Rate} = \frac{\text{Tax Levy}}{\text{Property Valuation}} = \frac{\$4,000}{\$200,000} = .02^*$$

* Or \$20 of property tax for every \$1,000 of property value.

The result is bad and good news. Even if the town levy stays at \$4,000, the second owner faces a tax increase. With 60% of the town's value, he must pay 60% of the taxes (60% X \$4,000), or \$2,400. The first owner, however, receives some good news. Even though his home's value doubled to \$200,000, his share of town value fell from 50% to 40%. So his tax bill drops to \$1,600 (40% X \$4,000). Clearly, there are cases when higher assessments result in tax increases and decreases.

Lower tax rates

Just as rising property values can lead to taxpayer anxiety over rising assessments, they can also be used to mask local tax increases. Imagine a mayor who proudly announces a 5% drop in the tax rate. Many residents take this news at face value and eagerly await a 5% drop in their tax bills. Should they? Not if they understand what a tax rate is.

The idea is fairly straightforward, as the picture above suggests. Take the total tax levy and divide by the community's total property value; the

result is the tax rate. Thus, if the town wants to collect \$4,000 in taxes and its total value is \$200,000, then the tax rate is: \$4,000 (tax levy) / \$200,000 (total town value), or .02 (see figure, left).

Sometimes, the tax rate is given as a mill rate, or the amount of taxes due for each \$1,000 of property value. In this case, the levy per \$1,000 is: \$4,000 / \$200 (thousand), or \$20 for every \$1,000 of value. Whether the rate is .02 or is \$20 per \$1,000, the tax bill is the same (\$2,000).

Because property values have been increasing, it has been easy in recent years for local officials to point to stable or falling tax rates, even when taxes are rising. Returning to the prior town example, suppose total property values jump 50%, from \$200,000 to \$300,000. As long as the town board increases taxes less than 50%, the tax rate drops.

For example, if the levy is raised \$500, or 12.5%, to \$4,500, the tax rate will still drop from .020 (or \$20 per \$1,000) to .015 (or \$15 per \$1,000). The math behind the new tax rate is: \$4,500 / \$300,000 = .015.

Final word

Unhappy taxpayers need to focus on local budgets and tax levies. Remember the two keys (see opposite side): Higher assessments don't guarantee higher taxes, and lower tax rates are no promise of lower taxes.

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