

What are **EQUALIZATION RATES** and why are they used?

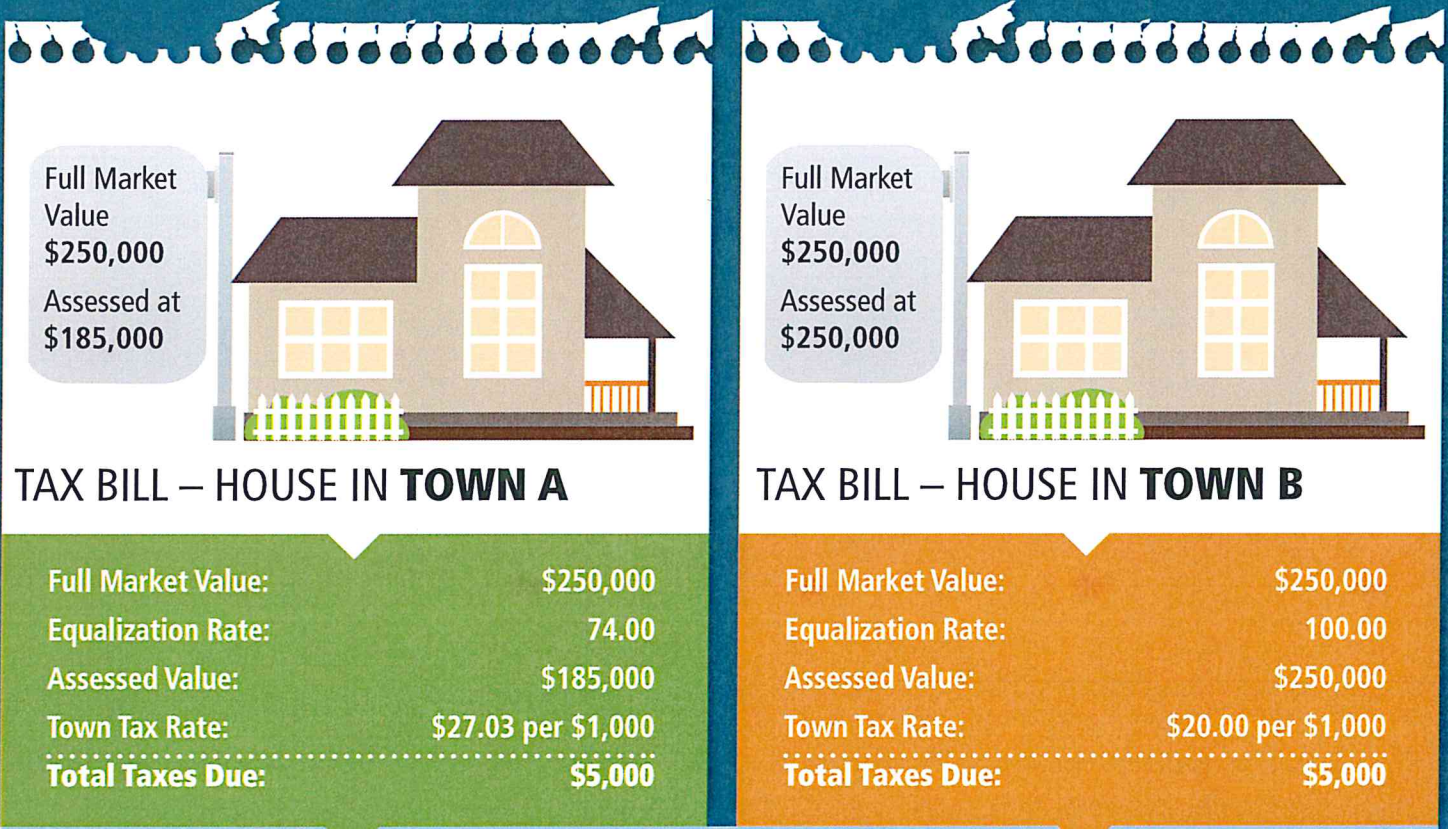
A tale of two houses, two towns, one school district, and two tax bills

Town A and Town B are different towns within the same school district. The house in Town A and the house in Town B recently sold for the same amount. So, the two houses have the same market value and should pay the same amount in school taxes.

However, Town A and Town B use different assessment practices, which means that the houses have different assessed values – and assessed values are used in the computation of property tax bills. Therefore, for the houses in Town A and Town B to pay the same in taxes, the tax rates (per \$1,000 of assessed value) must be different for each town.

The process of equalization is used to determine these tax rates. Essentially, full market value serves as a common denominator, or equalizer, in the process of setting tax rates.

Equalization rates indicate the ratio of the assessed value to market value in the municipality. They are used in an effort to fairly apportion the share of taxes when a taxing jurisdiction, such as a school district, contains multiple municipalities. They are designed to ensure that owners of properties with similar full market values pay an equivalent amount of taxes.



In this example, House A and House B pay an equivalent amount of taxes due to the different tax rates.

Remember: $\text{Assessed value} \times \frac{\text{Tax Rate}}{1,000} = \text{Total Tax Bill}$

In the example given, **properties in Town A are assessed at 74 percent of full market value** (an equalization rate of 74) and **Town B properties are assessed at full market value** – an equalization rate of 100.

School districts calculate the total full market value of all properties in each municipality. Equalization rates allow them to determine the share of the tax levy to be paid by each town, a necessary step to calculating tax rates for each town. The process is designed to:

- Fairly apportion the tax levy among the municipalities in a school district ; and
- Ensure that the amount of taxes paid by owners of similar properties in the district is similar – regardless of the town and its assessment practices.