

Focus

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In brief

Whether it be taxpayers, reporters, or local officials, understanding of property assessments and their impact, if any, on property tax bills is often limited. This vignette involving a village's only two residents attempts to reduce the widespread confusion by offering some simple principles to remember.

Capitol notes

■ *New May figures from the U.S. Senate Joint Economic Committee show that unemployment nationally rose from 5.0% in April to 5.5% and that nonfarm payrolls declined for the fifth consecutive month. However, first-quarter GDP growth was revised upward from 0.6% to 0.9%.*

■ *Meanwhile, in its quarterly economic outlook, the state's Department of Revenue projects state nonfarm employment to drop 0.4% in 2008 and remain stagnant in 2009. Corresponding national figures show 0.1% and 0.2% increases this year and next.*

■ *A Milwaukee County advisory panel has recommended that most parks funding be shifted from property to sales taxes. Whether lasting property tax relief would result was not said.*

■ *Former UW-Madison chancellor and Clinton cabinet member Donna Shalala is one of six individuals to receive this year's Medal of Freedom from President George W. Bush.*

The most confusing tax issue of all

This is the time of year when property taxpayers often receive assessment notices, boards of review frequently meet, and confusion abounds. WISTAX revisits this murky issue.

Hands-down, one tax issue confounds citizens more than any other. Few people, including many in the media and government, correctly understand the relationship between property assessments and taxes.

A common misconception is that an assessment increase means a property tax increase—or that, alternately, during a market downturn, a reduced assessment means a tax cut. Given the widespread confusion, it cannot be said often enough: A rising (or falling) assessment does not necessarily mean higher (or lower) property taxes.

Value share, tax share

Unfortunately, this reminder leaves the taxpayer unsure of how to interpret an assessment change. Perhaps eavesdropping on a conversation in Littleton will help. Clarice and Dumford, the tiny village's only residents, recently received new assessment notices . . .

Clarice: G'morning, Dumford, did you get your assessment notice in the mail yesterday? Mine doubled—from \$100,000 to \$200,000.

Dumford: Yeah, it came. My assessment doubled, too. I don't know what I'll do when my property taxes double. I'm already paying \$1,000.

C: Dumfie, don't worry. Your taxes are not going up one cent.

D: You've got to be kidding. My assessment skyrocketed. Surely, my taxes are going to go through the roof.

C: No, dear. The village is not increasing its tax levy for the coming

year. Littleton's only expense is street plowing and maintenance, and those costs have remained the same.

D: Yes, Clarie, but . . .

Seeing the confusion on her neighbor's face, Clarice interrupted.

C: Dear, think about Littleton. It has only two properties, yours and mine. Last year, both were assessed at \$100,000.

D: So, \$100,000 for my house and \$100,000 for yours adds up to \$200,000 for the village.

C: That's right. I own half the town's value and so do you. Now, you said your property taxes were \$1,000, right? That means the village's total property tax collections last year were \$2,000. I paid \$1,000, and you paid \$1,000.

D: Oh . . . I own half of Littleton's total property value, and I paid half the taxes. Does it work like that everywhere, Clarie?

C: Yep. No matter how many properties a community has, no matter what its total property value. You pay the same share of a municipality's tax levy as your share of its property value.

D: But, Clarie, my assessment has doubled. What will happen to my taxes?

C: Dumfie, dear. Our houses and yards are identical. My assessment doubled, too. Both our properties would now sell for \$200,000.

Littleton's total value is now \$400,000—\$200,000 for me and \$200,000 for you. My property is half of the village's value, and so is yours. Nothing's changed.

D: So, I'll pay half the property taxes . . . like before?

C: That's right. And since the village still needs only \$2,000 in taxes, I'll pay half—\$1,000—and you'll pay half—\$1,000.

Budget up, taxes up

D: So, even though our assessments doubled, our tax bills won't change. But . . . what happens if the village starts garbage pick up? There's been talk, you know. That would cost Littleton another \$1,000.

C: Then both our tax bills would go up. They'd increase because village spending and taxes increased.

The village levy would grow to \$3,000—\$2,000 for streets and \$1,000 for trash pick up. We'd both have to pay \$1,500 in taxes. Half the property value, half the taxes, right?

D: Right! Property taxes would increase for budgetary reasons—and not because our assessments grew.

Different shares . . . and taxes

D: Clarie, did I tell you my sister's husband died? She's thinking of moving into town and staying with me. The problem is that I would have to add another bedroom and bath. A contractor tells me it would cost \$100,000.

C: Well, that *would* increase your taxes. Your assessment would jump from \$200,000 to \$300,000.

D: But my taxes didn't increase when my assessment rose from \$100,000 to \$200,000.

C: That's different. My assessment would be \$200,000 but yours would be \$300,000. You would no longer own half of Littleton's property value. The village's value would be \$500,000—\$200,000 for me and \$300,000 for you. Your property would account for 60% of the village's total property value.

D: So, if the village tax levy stayed at \$2,000, I'd have to pay \$1,200, rather than \$1,000?

C: Yes, dear—60% of the village's value, 60% of the taxes.

D: But what about your taxes?

C: Because my \$200,000 property would account for only 40% of Littleton's value, I'd pay 40% of the taxes, or \$800. You know, \$200,000 divided by \$500,000 is 40%.

Values down, taxes down?

Dumford admired the flowers that separated his yard from his neighbor's. Then, he turned to Clarice.

D: Clarie, I was talking to my cousin, the real estate agent. She said

that, with the weak housing market, homes are not selling and home prices could drop as much as 50%. Wouldn't that be good news? Lower assessments, lower property taxes, right?

D: Dumfie, dear. Then we'd only get \$100,000 if we sold our homes. Besides, our tax bills wouldn't change at all. We'd each own half the village's value—\$100,000 of the \$200,000 total. We'd each have to pay half the taxes—\$1,000, just as before.

Rule of thumb

D: My brother lives in Bigville, where they just reassessed all properties. He told me yesterday that his assessment jumped 15%. Clarie, what should I tell him about his taxes?

C: Ask him how much the total assessed value of Bigville changed. *If* the city *doesn't* increase its tax levy, there are three possibilities.

First, if the city's assessed-value increase was more than your brother's 15% increase, his taxes would fall because his home's share of total city values would fall. Second, if Bigville's values increased 15%, his share of both valuation and taxes would remain unchanged. Finally, if city values rose less than 15%, his taxes would be higher. His home would be a larger share of the city's valuation. Larger share of value, large share of taxes, right?