

## **Why Property Tax Increases**

### **Two things determine property taxes:**

1. The assessed value of a home.
2. The property tax rate for that town or county. Of course, within that, there are a million moving parts and any number of things that can result in higher taxes.

### **Why is property taxed and how is that tax used?**

Property taxes provide financial support for town services. You benefit from these taxes because they are used by the school system, fire department, social services, road and bridge department, and many more essential service departments.

Property taxes, based on millage rates, are collected for the state and county general funds, state solidier fund, state school fund, county road and bridge fund, and county wide school funds. Individual municipalities receive property tax revenue for the city general funds and city school systems.

### **Why do my property taxes change?**

Your property taxes are based in part on the assessed value of your property. Changes may occur to your assessed value due to economic factors that affect the fair market value, such as the inflation rate, interest rates, and current housing market. Improvements such as extensive renovations to your home or the installation of a swimming pool can also affect your property's assessed value, as can any removal of any improvements.

Another reason your property tax may change is due to an increase or decrease in the millage rates. These rates are determined by the needs of the county and/or city general funds or others who receive funding from property taxes.

### **How can a property be assessed for more than its purchase price?**

Your property's assessed value is determined by the fair market value at the time of the assessment and not from the amount paid for the real estate. Because the fair market value is based on factors that fluctuate and change, your assessed value may be more than what you paid for your property.

### **Will my taxes go up every year?**

There are two reasons for your property taxes to increase: (1) a tax rate (millage) increase, or (2) an increase in the appraised value of the property. The first reason, a tax rate increase, would have to come from a vote of the citizens or by the taxing authority (County Commission) to increase (or decrease) the millage rate. The second situation, involving an increase in the appraised value, would come from a court-ordered re-appraisal or from an "economically-based" increase in the market value of properties in the county, resulting in an increase in the appraised value.

- 1. State and local budget cuts.** Part of the revenue collected from property taxes is used to fund the public school system, library, fire department and other essential services. So, when states cut their funding in those areas, the money's got to come from somewhere — and that usually means homeowners.

"In many cases, the shortfalls come from property taxes," explained Pete Sepp, executive vice president of the National Taxpayers Union. This is one of the biggest reasons why, even in an economic downturn and housing-market crash like the one we just experienced, property taxes can rise. And, little of that is in the homeowners' control: Aside from voting for elected officials, the only thing homeowners can vote on is the school budget, Lynch adds. "With property taxes, public officials basically argue that they can repeal the law of gravity as far as the economy goes!" Sepp said.

- 2. Increases in public employee benefits.** The average government employee has benefits that are 45% higher than their private-sector counterparts, according to the Labor Department, and thanks to unions and other legally-binding agreements, wages, pensions and health-care benefits are continually rising, even when the nation is in a recession and states can't cover the costs. As a result, homeowners are tapped to make up the difference with property taxes.

"Property taxes are the No. 1 revenue source for most jurisdictions," explained Guy Cecala, the publisher of Inside Mortgage Finance magazine. "If everybody's cash-strapped, that's the easiest one to adjust."

- 3. Adding a bathroom.** There are a lot of family homes out there that only have one bathroom. Homeowners figure if they add a bathroom it will not only increase the harmony in their home but also increase the value of their home when they go to sell it. That may be true but remember that your property taxes are calculated based on the value of your home, so if you've increased its value, you've now increased your taxes as well.

So how will the assessor know if he or she doesn't come inside the house? In a word — permits. You need a permit to do any plumbing, electrical or major construction work in your house and it's not uncommon for a tax assessor to check if any permits were filed when assessing the value of the home. "They check building permits often," said Edward Mermelstein, a real-estate attorney in New York. This is why some people try to sneak by without requesting a permit but that's a can of worms you don't want to open — it will create huge headaches when you go to sell the house.

- 4. Renovating the kitchen.** It's easy to talk yourself into a pricey kitchen reno because kitchens are what sell homes, right? "When it comes to home renovations, the most bang for your buck is always kitchen renovations," said Heidi Majerik, the director of development at Forest City Enterprises. And, if you do it now, you figure that you can enjoy it for a while — not just the next owners. Well guess who else will be enjoying that granite countertop, mosaic backsplash and cherry cabinets? The tax man!

Even if you don't knock down a wall and expand the square footage of the kitchen, you're still improving the "condition" of the home by upgrading from that cracked Formica and granny cabinetry. And the "condition," be it poor, fair, good or excellent, factors into the assessed value of your home and therefore your tax bill. A tax assessor can find out about a kitchen renovation in one of two ways: Either by doing an internal walk-through for the assessment, which can sometimes happen, or, like with the bathroom, through any permits you've filed.

Never underestimate the "condition" and its contribution to your tax bill. In certain areas, that can mean a differential of more than just a few percentage points, which can translate into more than a few dollars," Mermelstein said.

- 5. Converting the garage into living space.** So, you want to bring your in-laws to live with you. You figure that you'll save money by not paying for a pricey senior living center — and by not adding to the footprint, the square footage, of your home, by converting the garage into an extra bedroom or apartment for them. Not to mention, it'll put some distance between you and them! That may be true, but you've now increased the "livable" space of the home, and in most states, that's going to increase the value — and the taxes. Florida is among the exceptions: Any improvement made to help take care of a dependent doesn't increase a home's property taxes there, Sepp explained.
- 6. A shed or deck.** Even improvements to the outside such as sheds and decks add value to your home. In some states, a shed is only considered an addition of the square footage if it has a concrete floor, but often, it's going to be classified as an improvement to the home, the home's value — and your tax bill.
- 7. A garden.** Flowers and vegetables may seem unassuming but they can sneakily also increase your property taxes through what they call an "alteration of land improvement," Sepp explains.
- 8. Imaginary fireplaces.** It's always recommended that you appeal your tax assessment — or at least review the assessment with the tax assessor. First, if they don't do an interior review of the home, but they see you took a permit out for, say that kitchen reno, they'll probably estimate the value of the renovation based on other renovations in the area, Mermelstein said. And if your neighbors used higher-end materials than you did, that guesstimate is going to be too high and inflate your tax bill. And remember there's always the possibility for human error. When my husband and I met with our tax assessor recently, we discovered he'd put us down for a fireplace that we don't have, which, he said, inflated the value of the home by \$5,000! If we didn't appeal, we would've been paying taxes on that imaginary \$5,000 fireplace. "Human error is typical," Mermelstein said.
- 9. A golf course.** The location of your land is an important component of your home's valuation and taxes. If you live close to town or a pretty lake, that's going to mean higher taxes. Pay attention to local construction. In the same way that construction of a new

highway or chemical plant close to a home can dent its value, the addition of a golf course, lake or other amenity can boost the value of a home — and the tax bill.

### **Tips:**

- "Property taxes are really a double-edged sword," said Brian Fennelly, the chief financial officer of Forest City. "You want the value of your property to go up but that also makes your taxes go up... If you really want your property taxes to go down, participate in your public process," he suggests. When you cast your vote for elected officials, make sure you know their tax position and take advantage of the opportunity to vote on your school budget.
- And never, ever underestimate the value of being nice to your tax assessor! If there's an in-home assessment, offer him or her a drink. Treat the person like your honored guest — and that may help alleviate any exaggerations of what "excellent" condition your home is in. "It's good to have a personal relationship with an assessor," Mermelstein said. "If you do want to make some sort of argument through an appeal, you want them to remember you — in a good way," he said.
- Always appeal. Not only will it save you money on your tax bill but also prospective buyers will appreciate it when you tell them that you've challenged your assessment and it's as low as it can be, Sepp said. "Today, most municipalities and governments are looking for any source of revenue," Mermelstein cautioned. "Assessors definitely have an incentive to get as much revenue from any assessment as possible." And when you appeal, don't be afraid to "talk down" your home to the assessor. That does work, Sepp said. "Why pay more taxes on a roof with a leak when you can argue that it's sub-standard?" he said. Not just your roof but if the lot is badly graded with poor drainage, if the foundation has a crack, etc. You'll have to disclose all that stuff to prospective buyers anyway, so better to save money on it now with the tax man!
- Know the rules of appealing ahead of time: Often, you can only do it once a year and within a certain window of time. Make sure you catch that window so you don't have to pay an extra year of higher taxes. Plus, time any renovations or improvements for after the assessment. As they say, pay no tax before it's time!