

Standard on Property Tax Policy

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INTERNATIONAL ASSOCIATION OF ASSESSING OFFICERS

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Standard on Property Tax Policy

1. Scope

This standard focuses on defining the elements of property tax policy and their influence on the equitable distribution of property tax. The standard discusses how tax policy affects the administration of assessments and the role of administrators in shaping tax policy. Policy issues affecting administration include the division of responsibility between state and local governments, equalization, appeals, public relations, reappraisal systems, the market value standard, exemptions and abatements, fractional assessment (ratios), and limits on taxes and assessed values. Tax collection issues are not addressed in this standard.

2. Introduction

This standard is intended to guide property tax assessment officials, tax policy analysts, and administrators of state- and provincial-level agencies. As used throughout the standard, “assessing officer” refers to appropriate state, provincial, or local officials. Although similar issues arise in any nation’s property tax system, some sections of this standard will apply only to relationships within the property tax systems in the United States and Canada, where the power to tax property is assigned to state, provincial, or territorial governments.

Primary responsibility for property tax policy decisions in the United States lies with the executive and legislative branches of state government, which propose and enact governing statutes. In Canada, provincial legislatures can enact, amend, or repeal statutes based on proposals from either the legislative branch or the executive branch. In both countries, the judicial branch of government is also involved in clarifying and interpreting statutory provisions. The primary role of assessing officers, who may be involved in state or provincial oversight or local appraisal and assessment, is to implement and administer statutes. This process often overlaps with enforcement and administration of court decisions and development of administrative rules and regulations. Representatives of the executive and legislative branches may seek information and assistance from assessors, who also may initiate legislative action through coordinated efforts with regional associations and executive agencies. Therefore, assessing officers should understand desirable property tax models or systems.

2.1 Assessing Officer’s Role in Policy Formation

Assessing officers should work continually with the issues involved in property tax administration to increase their knowledge of various property tax systems and

should use this knowledge to improve the system. Their role will change depending on whether they represent state or local agencies. Assessing officers can serve as an information resource, help shape debate, define the administrative requirements of a policy proposal, call attention to problems that might be created by a policy, propose legislative remedies, and participate in the development of statutes, rules, and regulations. Assessing officers are encouraged to develop their policy proposals or legislative action plans by working with their professional associations.

2.1.1 Information Resource

Assessing officers and regional or state assessors associations should act as an information resource to enable legislators and other policymakers to understand better the effects of proposed policy changes. State-level property tax agencies often compile legal and technical information and provide research that can be shared with the assessing officer, and such agencies often can help set up an information database.

2.1.2 Steering and Guidance

The assessing officer should help shape the debate over concepts into the most productive and most administrable avenues. For example, if a legislator wishes to lessen the impact of rapid inflation by imposing a cap on the amount that assessed or market values can increase, the assessing officer can explain the inequities that could result and can propose alternatives that may be more equitable, such as budget or revenue caps or selective exemptions.

2.1.3 Administrative Aspects

The assessing officer should suggest practical and feasible alternatives to proposals that are well intentioned but poorly designed, administratively impractical, or fraught with unintended consequences. For example, reprogramming computer systems to track eligibility for a new exemption may require more time or money than is available. The assessing officer can suggest a more administratively feasible type of exemption, or can ask for programming or other funding to be included with the proposed legislation without passing judgment on the concept.

2.1.4 Identifying Problems and Solutions

The assessing officer is encouraged to work with legislators and taxpayer groups to seek legislative remedies to, or clarification of, proposed laws with unintended inequities as they become apparent. For example, assume that to accommodate financial difficulties associated with farming, a proposal is made to exempt all equipment and machinery from property tax. This may help

the agricultural sector but may seriously erode the tax base of a jurisdiction that is highly industrial, if industrial equipment and machinery become exempt through failure to narrow the exemption properly.

2.1.5 Participation in Development of Rules and Regulations

Administrative or oversight agencies, especially at the state level, often develop rules and regulations to clarify vague statutes. State administrative agencies are encouraged to incorporate clear and concise language into such regulations and to seek participation of local assessing officers and other local officials.

2.1.6 Tax Enforcement v. Fairness and Equity

The assessing officer is charged by the state legislature or other governing authorities with administering and enforcing laws related to property tax assessment. Under this system, equity is achieved through enforcement, which ensures that assessments and, ultimately, taxes are distributed as equitably as possible under the law. Whether this distribution is perceived as fair is a separate issue, more properly decided in the legislative arena. The assessing officer should endeavor to enforce the statutory requirements but should take note of fairness issues raised by taxpayers, bringing these to legislative attention when appropriate opportunities occur or directing taxpayers to the legislative arena.

2.2 The Role of the Property Tax

The property tax provides for balance and equity in the total tax system by taxing the one element of ability to pay overlooked by other state and local taxes. The property tax allocates the cost of government according to ability to pay as measured by property wealth. Among the many types of taxes levied, the property tax is the only tax used in every state of the United States, the District of Columbia, and every Canadian province. In fact, the property tax remains the most important source of own-source and total revenue for local governments in the United States.

2.2.1 Advantages of the Property Tax

The property tax is more stable and reliable as a revenue source than any other tax. Property value generally is less susceptible to short-term economic fluctuations than other major revenue sources in common use, including sales and income taxes. Furthermore, inclusion of property tax as one component of a diversified tax base means that fluctuations of any one revenue source will be less destabilizing to overall revenue. Because property, sales, and income taxes are largely independent, the impact of each tax varies among economic segments of the population. For example, a farming operation may earn little net taxable income and pay little income tax but will still be required to participate in the costs of government through property tax on land, buildings, and equipment. If a state has prime

recreational areas with many property owners who reside in other states, these owners may pay little income or sales tax, but their demand for services may be high and will only be met by property tax. As a tax on wealth, as measured by property value, the property tax reaches and includes broad sectors of the citizenry in sharing the costs of government. Elimination of the property tax would shift taxes considerably and could eliminate certain sectors from any participation in paying these costs.

Also, property tax systems are generally more open and visible than administrative systems for other taxes. For example, property owners can examine their assessments and those of nearby properties. An appeals system exists to afford property owners an opportunity to appeal their assessments. In addition, the taxpayer usually is faced with a bill that shows the entire liability, thus making the full magnitude of the tax obvious. This is not the case with taxes that are collected in small amounts as part of the purchase cost (sales tax) or are withheld from pay throughout the year along with many other items (income tax). This visibility helps to focus attention on and thereby improve the overall accountability of government.

Because the property tax generally is levied and administered locally, it is uniquely suited to the needs and structure of local government and promotes local autonomy. Although the property tax may appear to be administratively complex, it is simpler and more straightforward than most locally administered sales or income taxes.

From an economic perspective, because land is an asset of fixed supply, economic distortions associated with most forms of taxation do not accompany property taxes on land.

Finally, property taxes can be secured by the property and therefore are difficult to evade. For this reason, property taxes provide a more predictable, consistent amount of revenue. This is especially true of taxes on real property.

2.2.2 Disadvantages of the Property Tax

Despite a degree of local control that makes the property tax system more accessible than any other tax system, in the United States the property tax usually is rated by the public as the most unpopular of all state and local taxes. Property tax falls on unrealized capital gains and may be poorly related to cash flow. This makes payment of the tax more difficult for the retired and others who may be property rich but income poor.

The large lump-sum payments often associated with property tax make the magnitude of the tax more apparent and unpopular. Property owners often misunderstand the relationship between appraised value and tax and, therefore misunderstand how changes in appraised value relate to changes in tax. This may result from public relations inadequacies or from taxing dis-

tricts that take advantage of potential windfall situations arising from reappraisal. Nevertheless, the susceptibility of the property tax to this problem can be viewed as a disadvantage when compared to fixed rate taxes (such as sales and income taxes). This issue can be particularly salient in any reappraisal system that permits long periods of time between valuation adjustments. The longer or more irregular the period between reappraisals, and the more rapidly market conditions are changing, the greater the inequity and the larger the potential magnitude of changes in appraised value.

Often, there is no apparent relationship between property value and the governmental function being supported. For example, there are often complaints that the property tax should not be used to fund schools, because property is only indirectly related to school resource needs.

Appraisals or assessments may be perceived as inequitable. Fractional assessment ratios that differ from class to class add confusion and foster this belief. In some cases, appraisals may truly be inequitable. Lack of adequate state or local oversight and demonstrably poor uniformity as measured by ratio studies are indicators of actual inequitable treatment.

Finally, property appraisal is a resource-intensive process compared to the voluntary reporting mechanisms of the income and sales taxes. This makes the property tax appear to be administratively cumbersome and expensive. However, the cost of tax administration consists of compliance costs as well as administrative costs. In property taxation, administrative costs are high. In income and sales taxation, compliance costs are high, so it is conceivable that total costs associated with income and sales taxes are even higher than total costs associated with property tax. Each type of taxation has innate administrative requirements and complexities. For example, voluntary or self-reported taxes involve audit and compliance functions that could also be resource intensive at the local jurisdiction level.

2.2.3 Ability to Pay v. Wealth

Historically, ownership of property has been highly correlated with, and at times was the only measure of, wealth. In modern society, however, income is considered the closest measure of ability to pay, and the link between property and wealth has become less obvious. However, one has only to note the availability of loans that use property or equity in property as collateral to recognize that the link to wealth and ultimately to income still exists. Businesses may be unprofitable and not currently generating income. Undeveloped land may be idle and have no income stream. Few would deny that either of these assets has value. However, property is owned in anticipation of future benefits, and courts have generally ruled in favor of zero or minimal value only when no future use can reasonably be anticipated. It is not unrealistic, therefore, to suggest that property

still is a form of wealth and that only the property tax enables this wealth component to be used to pay for costs of government. As stated in section 2.2.1, without a property tax, some sectors of society with wealth would be exempt from participation in the costs of government. A balanced tax structure demands a property tax component.

2.2.4 Remedies for Problems with the Property Tax

Because there may be imperfections in using property wealth as a measure of ability to pay, exemptions, circuit breakers, tax abatements, classification, tax and value limitation measures, frequent and regular reappraisal, and public relations have been used to alleviate the real and perceived public concern with the property tax. Advantages and disadvantages of these potential remedies are discussed at length in sections 5.3 and 5.4.

3. Tax Policy Analysis

Tax policy deals with public or governmental policy involving the levy and collection of taxes. Analysis of tax policy requires understanding of many associated issues.

3.1 Tax Policy Statements and Implementation

The assessing officer should be familiar with the specific language that formulates a policy, should understand the nature of the policy, and should work with legislative bodies and citizens' groups to explain the effects of various policies and whether these policies achieve the goals of a model property tax system (see sections 4 and 5). Policy statements are formal expressions of principles and goals of particular aspects of property tax. These statements typically are found in laws, administrative rules and regulations, and court orders, although legislative intent may also be considered in court rulings. Policies may be vaguely stated or poorly understood. Why was the policy designed? Who is helped or hurt by the policy? The assessing officer can play an important proactive role by assisting in answering these questions.

Assessors should take an active role in policy implementation. See sections 2.1.6, 4.7, and 6 and *Standard on Public Relations* [IAAO 2010a.] Implementation occurs when a policy is administered. Implementation may involve resolution of ambiguities and policy-level decisions on the part of the assessing officer. For example, suppose a law is passed to grant homeowners a partial property tax exemption provided that they file an application with the assessor. The law probably would require that the assessor track the exemptions and may even establish criteria that the assessor must review e.g., did the claimant own the property on the required date?). The law may be silent on other aspects of implementa-

tion. For example, should the assessor devote time and resources to making potential claimants aware of the exemption or helping them complete the forms? If so, how much time should be spent? Thus, even though the legislature has set the policy goal, action or inaction on the part of the assessor can be crucial to the success or failure of this particular policy.

3.2 Assessing Officers Role in Policy Analysis

Assessing officers should consult with their colleagues in other jurisdictions to ensure that all perspectives are taken into account and provide detailed rationales, pro and con, for taking positions for or against proposed policies. Policy analysis requires the compilation and interpretation of relevant information. Analysis must be highly objective to maintain credibility. Data maintained by assessment agencies at any level of government can help legislators and other policymakers understand the ramifications of policies. Assessment agencies have massive databases of quantifiable data that can provide essential information. Often, analysis involves the review of numbers and types of properties with particular elements or features. This can range from the number of farms with over 200 acres to the value of industrial pollution control equipment that could be lost from the tax base if a new exemption were enacted. The assessing officer needs to be capable of providing various types of quantifiable information from the database of assessment records. A computerized record system is the best means to facilitate this process. See *Standard on Facilities, Computers, Equipment, and Supplies for Assessment Agencies* [IAAO 2003b].) Such a system should permit queries that allow reports to be created on demand.

Besides providing quantifiable data, the administrative experience of assessing officers and their understanding of the effects of tax policies on equity can help policymakers examine the implications of new policies. Assessing officers are often in the best position to understand and, therefore, take positions for or against proposed policies.

3.3 Key Policy Issues

3.3.1 Tax Incidence Issues

The issue of tax incidence is a key policy question in all areas of taxation. The economic theory of tax incidence is concerned with determining who bears the real burden of taxation.

Balanced-budget incidence refers to the effects of a tax combined with the expenditure program it finances. This kind of analysis is less appropriate for property tax policymakers, who are more apt to be interested in analyzing the effect of substituting one tax for another or raising or lowering the tax on selected taxpayers. For this purpose, the analysis of differential incidence is more useful, and further references in this standard will be to this form of incidence.

Incidence analysis compares the way taxes affect the distribution of income. Generally, the distribution of income resulting from a particular tax is compared with the distribution that would result from a flat rate, no-exemption income tax yielding the same amount of revenue.

Analyzing incidence is difficult because of the complex ways in which taxes are passed through to producers and consumers of goods and services. For example, property taxes on business property ultimately will be paid by individuals. The incidence may be on the owners of the business, its customers, the employees of the business whose employment may be affected), or those who sell to the business.

When the incidence of a property tax falls on property owners, some of the tax is capitalized. Any portion of the tax that cannot be recovered will result in a commensurate reduction in the capital value of the property. That is, the net income real or imputed) that can be received from the property is reduced by the amount of the tax; thus, the value of the property is reduced. Capitalization effects are difficult to measure precisely. For non-residential property, the greater the effective property tax rate, the greater the loss in value, all other things being equal. However, residential property values may be higher in desirable school districts which are supported by relatively high property taxes. When effective tax rates or assessment ratios) vary considerably due to deliberate policy choices or through administrative inaction, capitalization produces winners and losers.

The economic incidence of the tax is rarely the same as the legal incidence. For example, sales and excise tax statutes often specify that the tax will be passed on to the purchaser, but if the tax results in decreased consumption of a given article, its price will decline and production of the taxed good will decline. Prices of the taxed good, competing goods, and the factors used to produce both will change. This will affect the incomes of business owners and workers, most of whom have no way of knowing the tax is affecting them. The process whereby the tax is transferred through the market system to someone other than the initial taxpayer is called tax shifting.

It is important for tax policy analysts and users of such information to distinguish between economic incidence analysis and the analysis of tax burden based on legal or perceived burdens. Appendix A shows the distribution of property taxes levied against different categories of property. Appendix C shows the taxes levied against families. These charts correctly illustrate burden but do not investigate ultimate economic incidence.

3.3.1.1 The Effect of Exemptions on Tax Incidence

The effect of exemptions should be analyzed continually from both legal and tax incidence perspectives. Exemptions tend to shift taxes from favored partially or fully exempt property to nonexempt sectors. Some

exemptions are unavoidable because of federal prohibitions, difficulties in administration, or extreme inefficiency (e.g., governmental institutions taxing themselves). Other exemptions encourage or subsidize activities that otherwise would be provided by government. This is true of many nonprofit or charitable organization exemptions.

Although exemptions may be perceived as correcting inequities or regressivity, there often are unintended tax shifts that may add taxes to certain sectors. When governmental units have levy (rate) limits, narrowing of the tax base can also reduce overall available revenue for services. When levy rate limits are not restrictive, the narrowing will cause increased rates on nonexempt property. If exemptions fail to follow legal and constitutional protection criteria, discrimination actions may result.

Exemptions are examined more fully in section 5.3.1.

3.3.1.2 Horizontal Equity

Horizontal equity exists when taxpayers similarly situated bear the same tax burden after shifting is taken into consideration. The term similarly situated often implies having the same income, so, in a system that achieves horizontal equity, two taxpayers with the same economic conditions bear the same tax burden. With regard to property, the value of the property becomes a proxy for income and determines whether the taxpayers are similarly situated.

3.3.1.3 Vertical Equity

Vertical equity refers to any difference in tax burden borne by taxpayers who are not similarly situated and suggests that taxpayers who are in unequal economic positions should be treated differently. In practice, this means that low-income people should pay less property taxes than high-income people.

Progressive tax systems, in which those who are wealthier pay a higher proportion of income, are not completely vertically equitable, but often are supported by policymakers. There is considerable debate about how much progressivity is good and how much regressivity should be accepted in any tax system.

3.3.1.4 Leased Property

There often is a perception that leased or rental property users pay no property tax because the tax usually is billed to the property owner. This leads to the faulty perception that renters escape property tax. A corollary perception is that commercial property taxes translate into taxes on local consumers and therefore only add to the tax burden of homeowners.

Economic theory teaches that markets generally are efficient and market forces prevail, unless various impediments to competition or regulatory constraints prevent this. In other words, lessees pay taxes in the form of increased rent, unless the market will not bear the

increase. In this case, the highest and best use concept (see IAAO 1990, 80-82) would suggest that rental of such property is not economically feasible and therefore not its highest and best use. Similarly, commercial property taxes may be passed on to consumers, employees, or owners of capital but, to the extent that some of the consumers are not part of a local community, the taxes tend to be partially exported, thus partially preventing increased taxes on local consumers. In today's marketplace, such export can even be global, with the international community in effect paying a portion of local taxes. In the same way, nonresident visitors contribute to local revenue through the sales tax.

3.3.2 Tax Burden or Incidence Measurement

Although measurement of who ultimately bears the burden of taxation is difficult and convoluted because of the complex way in which taxes are passed through to consumers, it is possible to analyze a tax system. The incidence of taxes should be calculated so that the effects of tax changes can be appropriately discussed. Otherwise, tax policy may be made by appealing to either horizontal or vertical criteria with little known about the tax or policy.

In property taxes, it is useful to determine the amount or proportional share of the tax dollars levied on categories of property or classes of taxpayers and to adjust tax dollars levied for inflation to enable long-term analysis (Appendix A). It is also possible to express tax revenue as a percent of the personal income of the residents of a state or region (Appendix B). This represents an approximation of the burden imposed on residents of the area studied. Measures of tax capacity, such as those shown in Appendix B, table 1, column 3, allow for the possibility of taxing property or income of nonresidents. Capacity can be compared with actual collections to provide a measure of tax effort (see Appendix B, table 1 column 6). Such comparisons take into account different earning (income) potential in different regions, or, in the case of Appendix B, table 2, different populations.

Departments of federal agencies, such as the Government Finance Division of the Census Bureau of the United States Department of Commerce and Statistics Canada have numerous annually updated publications that provide data useful for tax burden or incidence analysis. Before attempting such analysis, however, the user should check with this agency to ensure that the most current or most recently revised data are being used.

In addition to federally compiled information that can assist in the measurement of tax burden, it is useful to analyze the taxes that would be paid by a hypothetical firm or family in various places. The District of Columbia annually compares the taxes that would be paid in the largest city of each state by hypothetical families of four with different incomes. A sample chart taken from this analysis is found in Appendix C.

State or local jurisdictions that maintain an analytical research staff can use this information to determine whether there is objective evidence that the property tax overall or on any one segment of property is too high (see section 5.5).

3.4 Elasticity

Elasticity relates to the relationship between increases in income and increases in tax. The property tax tends to be less related to changes in income and therefore relatively inelastic. Income and sales taxes tend to have greater elasticity. However, the ability of the property tax to provide for increased local governmental services in response to growth may depend on tax limitations in place. For example, if the rate of increase in overall property taxes is frozen at 6 percent per year, and there is no special allowance for new construction, rates will decline in fast-growing areas and jurisdictions relying on the property tax may be unable to fund services at the required level. This lack of elasticity would be in relation to growth in the tax base, rather than income, but would be analogous to the traditional, income-based concept.

3.5 Costs v. Benefits

Assessing officers should seek to provide the public with accurate information and dispel misconceptions regarding the property tax. Property tax is often subject to complaints of inequity or unfairness. Although there may be policy (statutory) or assessment-related causes for such complaints, often the complaints arise because of misunderstanding about the amount of the tax and the benefits being provided by this revenue.

Some taxes may be easily explainable as clearly related to a benefit. For instance, highway construction or maintenance appears logically funded by motor vehicle user taxes. Using similar reasoning, it is often suggested that property taxes are especially appropriate for financing services that protect or enhance the value of property. However, this argument is rarely applied to other major taxes, such as sales and income taxes, and misses two issues. Property tax is particularly appropriate to funding the myriad of local units of government that provide services, often in small, localities. Additionally, the property tax provides a method for financing local government that taxes one element of wealth not addressed by other state and local taxes. As such, the property tax is an integral part of a balanced tax structure.

Failure to examine this aspect of criticism leveled at the property tax results in the establishment and promulgation of misconceptions about property taxation and its effects.

4. Components of a Model Property Tax System: Valuation

Property tax valuation systems should be designed to maximize equity among property taxpayers and visibility or openness, while minimizing administrative complexity and confusion. A market value standard is essential to achieving equity.

The assessing officer is most closely involved with aspects of property tax relating to how assessed values are estimated. Legislative bodies will establish the system, but certain elements tend to produce systems of higher quality in terms of administrative feasibility, uniformity, and equitable treatment of property. (See Appendix D.)

4.1 State, Provincial, and Local Responsibilities

State, provincial, and local governmental entities involved in property tax administration typically play different roles, especially with respect to valuation of different classes of property, quality control, and equalization. Direct assessment authority and responsibility generally is greater in Canadian provincial governments than in their United States state-level counterparts. In Canada, independent agencies or divisions of provincial government perform provincial assessment functions.

4.1.1 Valuation of Property

State administrative agencies typically play a limited role in direct property valuation but often provide oversight, guidance, and training. Local assessing jurisdictions usually have considerable autonomy and are usually responsible for the appraisal and assessment of most real and personal property.

A strong state role in property tax administration promotes the uniform application of property tax laws and can provide services that otherwise would be too costly for many local assessing jurisdictions.

4.1.1.1 State Agency Valuation Roles

States should have mechanisms to provide the financial assistance necessary to ensure that local jurisdictions have adequate and well-trained professional staffs, accurate cadastral maps and records, and the greatest feasible degree of computerization. States should also provide or coordinate broad-based educational programs designed to ensure adequate appraisal and administrative skills among local assessment personnel. State administrative agencies occasionally fulfill all appraisal and assessment functions. The typical model, however, is for state agencies to provide guidance to local assessors in the form of rules and regulations, procedures, manuals, technical assistance, and sometimes, financial assistance. Because of their broad jurisdiction and viewpoint, state agencies are in the best position to provide

these kinds of assistance. In addition, in many states, state-level assessment administration agencies have much of the responsibility for the valuation of public utilities, mineral properties, industrial properties, farmland, and railroads. This is a desirable model, because the property being appraised often is highly complex and multi-jurisdictional and consolidation of appraisal by one entity (the state) can enable development of greater expertise because of greater focus, achieve an economy of scale, and simplify appeals processes.

4.1.1.2 *Local Assessing Officer Valuation*

Responsibilities

Local assessment systems should be administered in a professional, equitable, and open manner. The local assessing officer typically is responsible for the appraisal of real and personal property and, in some areas, is also responsible for the appraisal of public utilities and railroads. To accomplish these responsibilities in a fair and professional manner, an adequate budget, well-organized and trained staff, sufficient computing resources, accurate and accessible property descriptions and characteristics, effective appraisal programs, positive public relations programs, and accessible and effective appeals procedures are necessary.

4.1.1.3 *Sales Chasing*

Local assessing officials should avoid the practice of sales chasing, and state oversight agencies should monitor and discourage this practice. According to the *Standard on Ratio Studies* (2010, Definitions), “Sales chasing is the practice of using the sale of a property to trigger a reappraisal of that property at or near the selling price. Sales chasing causes invalid uniformity results in a sales ratio study, and causes invalid appraisal level results unless similar unsold parcels are reappraised by a method that produces the same percentage of market value (appraisal level) as on the parcels that sold.” Further, unless similar unsold parcels are reappraised at the same level as sold parcels, sales chasing causes inequitable treatment of taxpayers by shifting the tax burden to taxpayers who have recently purchased property. Ideally, local assessing offices should maintain sales prices in a database used to track the need for reappraisal and to update the assessing office’s valuation model. Then, all parcels in a property class in a given area should be reappraised simultaneously using the updated valuation model. This practice will maximize the equity of the property tax system and help maintain public confidence in the system. States that use ratio studies for equalization purposes should test for sales chasing and correct it when necessary to avoid erroneous equalization decisions.

4.1.2 *Equalization of Property Values*

Equalization of property values is an important step that ensures uniform treatment of groups or classes of property. Equalization functions ensure that state aid to

local jurisdictions is apportioned according to a more consistent estimator of value. Equalization also can ensure equal effect of exemptions and statutory levy rate limits. In equalization, broad adjustments to values, tax rates, or funding distribution may be made to correct for widespread assessment discrepancies that otherwise would create inequity among jurisdictions. Equalization does not include adjustments to the values of individual properties that result from taxpayer appeals or review of the rolls by assessing officers.

4.1.2.1 *State and Local Equalization Roles*

Local boards of review and equalization provide a valuable check and balance for the assessment process and should be encouraged to take an active role. Local jurisdictions often include administrative agencies, such as county review boards and county commissioners, that oversee and review assessed values estimated by assessing officers. Authority of such boards can be broad, including the ability to adjust individual or entire class assessments. In the broadest cases, these boards play an equalization role equivalent in their jurisdiction to state-level equalization. Such equalization may be based on a review of ratio study information provided by the assessing portion of the jurisdiction, or independent ratio studies may be conducted.

State administrative agencies often perform equalization as part of general oversight functions. State equalization can merely serve as a check and balance on local equalization. However, when the state has direct assessment responsibilities for public utility, railroad, and other property types, state equalization can serve the added function of eliminating inequity between locally and state-assessed property. States should also take an active role in equalization when properties subject to taxation by a local taxing district are assessed by more than one local assessment agency. For example, if a school district is in three counties and each county has assessment responsibility for only the property within the portion of the school district located in its own county, assessment discrepancies may go uncorrected unless a state administrative agency performs an equalization function.

An alternative to this model would be to require local assessment jurisdictions to extend their boundaries to equalize property values in multi-jurisdictional taxing districts. For example, if a school district is primarily in County A, but extends into a small portion of County B, the assessor in County A could assess property in the entire school district, and equalization could be done locally. In practice, this is a cumbersome model resulting in confusion due to different values being set on one property by different responsible jurisdictions. This confusion will extend into the appeals and equalization processes and will reduce the understandability of the property tax system. Such a model is to be avoided.

4.1.2.2 *Methods of Equalization*

Whether accomplished at the state or local level, equalization generally takes one of two forms: direct, involving adjustments to previously determined property values, and indirect, involving adjustments to tax rates or funding distributions.

4.1.2.2.1 **Direct Equalization**

Administrative entities that order adjustments to local values should do so only after notifying local assessing authorities and providing an opportunity for locally initiated corrective action. Many states and most local jurisdictions practice some form of direct equalization. The process typically uses ratio studies to identify property types that are treated inequitably. Results are converted into adjustment factors and adjustments are ordered to previously established appraised or assessed values. This method has the advantage of producing results that are visible to the taxpayer and will therefore more clearly reduce perceived inequities. Guidelines provided in the *Standard on Ratio Studies* (IAAO 2010b) should be used to determine whether assessment levels differ sufficiently from statutory requirements to trigger equalization. Because local reappraisal, if done properly, results in more equitable appraisals than general adjustment factors ordered by an administrative entity, local assessing authorities should be given a chance to perform a reappraisal before adjustments are ordered, unless time constraints preclude such action.

4.1.2.2.2 **Indirect Equalization**

Indirect equalization usually involves computation of hypothetical values that represent the analyzing agency's best estimate of assessed values given the statutorily required level of assessment as of a designated valuation date. For example, if there is \$75 million in assessed value of residential property in a jurisdiction and the equalizing agency's ratio study shows an assessment level of 75 percent but the statutorily mandated ratio is 100 percent, an equalized assessed value of \$100 million could be computed ($\$75 \text{ million} / 0.75$). Use of this computed value would enable equitable treatment of jurisdictions that might assess at different levels, which, although internally consistent, could create inequities in state funds distributed on the basis of assessed value. An alternate approach to indirect equalization is to adjust the rate or levy to be applied to different properties. If, for example, the goal is to have a uniform property tax contribution of 0.5 percent of market value for school funding, this rate might be adjusted to 0.625 percent in a jurisdiction found to be assessing at 80 percent of market value ($0.5 / 0.8$).

Either of these indirect systems is adequate to provide for equalization. However, these adjustments are relatively invisible to taxpayers and often lack some of the checks and balances associated with direct changes in assessed values. It is important, therefore, to ensure that assessments actually need adjustment. Statutes or

administrative rules should require the agency imposing the adjustment to meet the burden of proof of a need for equalization.

4.1.3. *Alternatives to Equalization*

As an alternative to direct and indirect equalization, some oversight agencies have authority to approve or disapprove the locally developed assessment roll or to conduct performance or procedure audits (see 4.3.4). This is done to ensure compliance with state legal standards for completeness, accuracy, uniformity, and reliability (See *Standard on Administration of Monitoring and Compliance Responsibilities* [IAAO 2003a]).

4.2 **Market Value as a Basis for Taxation**

Property taxes are annually recurring taxes that, by definition are ad valorem, based on and in proportion to the underlying value of the property being taxed. To maximize fairness and understandability in a property tax system, assessments should be based on current market value of property.

4.2.1 *Advantages and Disadvantages of Current Market Value*

In a dynamic economy, property values constantly change. Values in one area may increase, whereas those in another may decrease or stabilize. Property taxes then shift to areas with increasing wealth as measured by property value. Only a system requiring current market value acknowledges these changes in local economies and the distribution of property-related wealth.

Assessing property at current market value maintains a uniform relationship between property values and property taxes. Also, current market value requires market-based appraisals and imposes an objective constraint on what otherwise would be perceived as a highly subjective process. Under a current-market-value standard, it is easier for the public to understand whether they are being treated fairly.

Current market value is attacked primarily on the basis of an ability-to-pay argument. It is often argued that if values rise disproportionately rapidly in a retirement community, where most of the property owners are on fixed or limited incomes, taxes may force people from their homes. This argument primarily expresses social, not economic, policy concerns. From an economic standpoint, property owners with higher values have greater wealth in the form of unrealized capital gains, which may be convertible to income in various ways, some of which do not require loss of property. From a public policy standpoint, however, the burden of increasing property taxes fueled by increasing values can be alleviated through specific, selective exemptions or other controls. (See sections 5.2.2 and 5.3.) Care must be taken to avoid a system with an overly complex maze of exemptions and limitations. In such a system, it becomes impossible to understand which

sectors actually receive a benefit, and the principle of ad valorem taxation is soon lost.

4.2.2 The Principle of Annual Assessment

Current market value implies annual assessment of all property. This does not necessarily mean that every property must be reappraised each year. In annual assessment, the assessing officer should consciously re-evaluate the factors that affect value, express the interactions of those factors mathematically, and use mass appraisal techniques to estimate property values. Thus, it is necessary to observe and evaluate, but not always to change, the assessment of each property each year in order to achieve current market value. It is recommended that assessing officers consider establishing regular reappraisal cycles or at least appraisal level and uniformity (vertical and horizontal equity) thresholds that trigger reappraisal. (See *Standard on Ratio Studies* [IAAO 2010b].)

4.2.3 Alternatives to the Market Value Standard

Non-market value systems should be rejected as a model because they deviate from the basic principle of ad valorem taxation and tend to be less equitable for all property taxpayers. Two major valuation systems that differ from current market value are in place in portions of the United States. In many areas, market value is established as of a base year and then frozen for all or a portion of the property. This may be done as part of cyclic reappraisal in which 20 percent or 25 percent or some other proportion of the property is reappraised, and the remainder has its value frozen until its reappraisal turn arrives. Occasionally, base years are established for all property. In this case, changes may be permitted at a point in the future (say, every eighth year) or only on the sale of a property. This latter approach results in what is known as acquisition value and is most widely applied in California. The only way to trigger reappraisal (aside from a small allowable annual adjustment) in an acquisition value system is the sale of the property. Therefore, any semblance of equitable treatment related to value is lost. Studies in California have determined that fifteen years after implementation of an acquisition-value-based system, it would not be unusual, for example, for two identical, side-by-side properties to have legally correct values that differ by 500 percent (O’Sullivan, Sexton, and Sheffrin 1995). Because of these defects, public understanding of who actually benefits and to whom taxes are shifted is extremely limited.

Acquisition value systems also decrease mobility because the most recent movers to or in any area pay the largest tax share. Although research has shown that systems based on acquisition value can protect senior citizens who tend to sell property and move infrequently, this same protection can be afforded directly by programs such as circuit breakers, which are designed specifically to aid target groups. Thus,

with a circuit breaker program, property tax relief goes to the defined group designated by policymakers as needing assistance. Any tax reduction provided to this same group under an acquisition value system is coincidental. Acquisition value makes even less economic sense for businesses because new businesses are presented with a competitive disadvantage because of substantially higher property taxes.

Furthermore, once such a system becomes entrenched through long-term application, it becomes virtually impossible to eliminate disparities that can only grow worse over time. A return to a system based on market value inevitably would cause major intra-category tax shifts; therefore, the prospect of such reform ceases to be available after a few years of high inflation.

4.2.4 International Alternatives to Market Value of Real Property

Although many nations other than the United States and Canada use a form of real property taxation, there are significant differences in the classes of property to which the tax is applied and in the determination of value.

For example, in many of the transitional former communist countries, the property tax is based on area rather than value. This is true for taxable property in Albania, Croatia, Poland, and the Czech Republic to name just a few examples. Value is more likely to be the basis in other European nations with longstanding property tax systems. Value does not necessarily imply market value. In Austria, France, and Germany, for example, the basis can involve capitalized rent or fire insurance value. The current system in use in Great Britain assigns property to value bands, with properties assigned to different bands or value ranges based on 1991 prices. Lower value bands pay lower tax rates, but the system is generally regressive because all property with a 1991 value over £320,000 (approximately \$584,200 U.S.) is charged the same amount of property tax.

The greatest consistency among these various property tax systems is that the land component is taxed. Because the determination of tax rate and tax base is so disparate, comparisons between nations are difficult at best. Useful and detailed information on specific features of property tax systems in many nations is found in *An International Survey of Taxes on Land and Buildings* (Youngman and Malme 1994). More current information and references are found in *A Survey of Property Tax Systems in Europe* (R. Almy 2003).

4.3 Quality Assurance

Quality assurance is an important aspect of every valuation system. Specific procedures should be established, and staff should be strongly encouraged to review all aspects of their work to ensure compliance. Lack of effective quality assurance can result in minor or major

gaps, ranging from loss of data to failure to recognize or correct inequities.

4.3.1 *Internal Edits and Review*

Every assessment jurisdiction should establish procedures for internal review of work product. Supervisory review of appraisal and assessment work as well as ratio studies, procedure reviews, performance audits, and peer reviews can be used and should be considered. This is particularly important for appraisals, which may otherwise be attacked as subjective or not well developed. Internal review includes establishment and review of quality and quantity performance criteria. Numerous computer edits are needed to ensure that all accounts are in balance and to enable data entry errors to be caught and corrected.

4.3.2 *Ratio Studies*

Ratio studies are effective components of a quality assurance system and should be conducted at least annually. Ratio studies should be used to emphasize horizontal and vertical equity of assessments as well as overall level in comparison to statutory requirements. When used by a local assessing jurisdiction, ratio studies can be designed to measure the quality of assessments in neighborhoods or for specific types of property, as well as to provide overall quality indications. State agencies typically use ratio studies as part of technical assistance, oversight, or equalization roles. (See *Standard on Ratio Studies* [IAAO 2010b].)

State agencies responsible for conducting ratio studies for local jurisdictions should publish the results of such studies. Published reports should be readily available to all interested parties and include narrative discussions of the method used as well as statistics that measure level and vertical and horizontal equity. Published ratio studies should clearly define their purpose to maximize their usefulness to prospective users.

4.3.2.1 *Horizontal Equity of Assessments*

This type of equity typically is examined in two ways. First, are all of the properties of a particular type (homes, farms, businesses, and so on) appraised at the same levels with respect to market value or at different rates or ratios of market value? In other words, if the appraisal goal is to appraise all single-family residential property at 80 percent of market value, are most homes close to this level? The coefficient of dispersion (COD), determined as part of a ratio study of each class of property, will guide the assessing officer in understanding the degree of such horizontal equity. (See *Standard on Ratio Studies* [IAAO 2010b].)

Second, if groups or classes of property are analyzed separately, will the statistical analysis indicate that the groups or classes of property are being assessed at one consistent level? For example, is residential property at 80 percent, but industrial property at 90 percent of market value? Is residential property in City A at

70 percent, but the same class of property in City B at 60 percent? This type of equity is best understood by assessment-level statistics determined from area- or class-specific ratio studies.

4.3.2.2 *Vertical Equity of Assessments*

Vertical equity asks whether properties of different values are assessed at different levels. For example, are low- and high-value single-family residential properties appraised at the same level of assessment? Although there is no precise relationship between property ownership and ability to pay taxes, there is at least an indirect one between property ownership and wealth. If higher value properties are appraised proportionately lower than lower value properties, the system is said to be regressive. The opposite case would be considered progressive. The price-related differential (PRD) can provide an indicator of this type of inequity. Statistical tests can be used to determine more precisely the degree of vertical equity. (See *Standard on Ratio Studies* [IAAO 2010b].)

4.3.3 *Data Availability*

Legislative remedies should be sought if adequate sales disclosure laws do not exist. Sales information is critical for all three approaches to value (income, cost, and sales comparison, as described in *Property Assessment Valuation* [IAAO 1996]). Although sales may need to be properly screened and verified regardless of source, legally mandated disclosure of sales prices to local and state assessment jurisdictions is necessary to ensure the quality and availability of this information.

High-quality appraisals and assessments require sufficient high-quality data. For agricultural land, periodic surveys may be used to establish productivity and expenses. Surveys can also be used to establish lease information for use in valuing commercial property. Statutes should establish requirements for property owners to provide necessary information and reasonable access. Such statutes should include provisions for arbitrary assessments or limitations on appeal rights if inaccuracies result from failure to provide information or access. The statutes, to the extent practicable, should also provide for taxpayer confidentiality to protect taxpayer privacy, and encourage compliance. The statutes, to the extent practicable, should provide for taxpayer confidentiality not only to protect taxpayer privacy but also to encourage compliance.

4.3.4 *Performance and Procedure Audits*

Reviews of appraisal and assessment procedures should be done periodically. This is important whether in-house staff or contractors perform these functions. The process should include a review of documentation and procedures, as well as actual appraisal results. If property characteristics are being captured, a sample should be audited to ensure accuracy. Performance and procedure audits can be conducted by specialized internal staff, governmental agencies, or independent contrac-

tors who should be separate from those hired for the appraisal or data collection work.

4.3.5 *State v. Local Quality Assurance Roles*

State assessment agencies may be required to review the work of local assessing jurisdictions. This may be in response to ongoing audit requirements, legislative mandates, local jurisdiction requests, or taxpayer complaints. Often, states have authority to order reappraisals to correct assessment equity problems. If a review or reappraisal ordering function exists at the state level, responsible agencies should seek authority to conduct reviews or order reappraisals based on long-standing failure to meet ratio study standards for horizontal and vertical equity. Reviews or reappraisal orders should also be triggered if local jurisdictions fail to meet reappraisal timelines, to maintain adequate property records and maps, or to meet other indices. (See *Assessment Practices: Self Evaluation Guide* [IAAO 2009a].) In any case, the oversight agency should establish clear goals, guidelines, standards, and objectives beforehand to minimize misunderstandings and better achieve desired results. Agencies that investigate taxpayer complaints should develop specific criteria to define the extent of the investigation and should develop procedures to narrow and focus such complaints.

Local assessors should establish internal quality assurance procedures, which should include review of all data being collected, field testing of valuation models, review of values generated by models, and procedures for correcting data and updating models and values (IAAO 1990, chapter 21).

4.4 Appraiser Qualifications

Ensuring a high-quality valuation system requires highly skilled and trained professional staff. Assessors may need legislative direction or administrative rules and regulations to ensure that this objective can be promoted and achieved. Accordingly, states and other governments have implemented legislation requiring practitioners in all branches of property appraisal to demonstrate appropriate qualifications before being allowed to practice independently, to maintain and improve their skills used in the course of practice, and to conduct themselves in accordance with the *Uniform Standards of Professional Appraisal Practice (USPAP)* (Appraisal Foundation 2004) and equivalent standards that may be in place outside the United States. Such legislation may establish different qualifications depending on the type or value of property to be appraised and the purpose of the appraisal. Some states require assessing officers to obtain a license, certification, or professional designation (such as the IAAO's Certified Assessment Evaluator [CAE] or designations awarded by states and other professional organizations). Legislation regulating independent appraisers, such as fee or contract appraisers, should be coordinated with legisla-

tion affecting assessing officers. When similar qualifications exist, transferability of experience, credentials, and course credits should be permitted. Objective standards should be developed and used to evaluate experience, credentials, and educational requirements. (See *Standard on Professional Development* [IAAO 2000].)

4.5 Land Data Systems

The assessor must maintain high-quality land records and an accurate inventory of property. Collection and maintenance of land data are expensive but are critical parts of any property tax valuation system. By establishing multipurpose cadastral systems, many different public officials or agencies can make use of the information which may help to defray the costs of data collection and management. Multipurpose systems can be computerized and can become extremely interactive providing information on the relationship between location and other property characteristics or influences on value. Geographic information systems (GISs) exemplify this multipurpose principle. (See *Standard on Manual Cadastral Maps and Parcel Identifiers* [IAAO 2004] and *Standard on Digital Cadastral Maps and Parcel Identifier* [IAAO 2009b].)

4.6 Appeals

Appeals can function as part of the external quality assurance program of an assessing jurisdiction. Often, problems that may extend beyond the property on which the appeal is filed will be uncovered and potentially serious inequities quelled. Assessment personnel should view the appeals process as a positive element of quality assurance in the assessment system.

4.6.1 *Appeals Systems*

Appeals systems should be designed to facilitate the taxpayer's right to appeal. To do this, the process should be clearly spelled out in a written brochure or other document that can be given to the taxpayer. Before filing a formal appeal, the taxpayer should have an opportunity for informal discussion, which may resolve many issues and may even obviate the need for the appeal to proceed. To the extent practical, the taxpayer should have access to all records pertaining to the valuation of the property in question. Each assessing officer should become familiar with statutory requirements that may make some of this information confidential. Aside from such restrictions, information should be willingly and openly shared, and this sharing should include information on sales used as comparables. (See *Standard on Assessment Appeal* [IAAO 2001].)

4.6.2 *Planning and Staff Allocation*

Adequate resources must be provided to defend values. The need for response to appeals typically increases during reappraisal years or periods with rapid property value inflation. Proper planning and staff allocation must

be done to ensure sufficient resources to address the anticipated higher than normal number of appeals.

4.6.3 *Taxpayer Representation*

Appeals typically involve two types of assessment issues: appraisal and legal. Individuals trained and educated in ad valorem tax procedures are considered qualified to provide professional representation for taxpayers in the early stages of the appeals process provided that appraisal issues are the focal point. Such representation does not constitute the unauthorized practice of law. Valuation questions often involve legal issues. When issues of law are in question, both the taxpayer and the assessing agency are advised to retain trained legal practitioners.

4.7 Public Relations

Assessing offices should maintain strong public relations programs. Public relations is a critical aspect of every property tax valuation system. Strong public relations programs will help to alleviate taxpayer suspicion regarding reappraisal and other assessment activities. Effective public relations includes active communications, open access to records (to the extent allowed by law), prompt attention to inquiries, periodic press releases, up-to-date jurisdictional web sites, participation in community speaking opportunities, and an information program designed to enhance public understanding of assessments and property taxes. (See *Standard on Public Relations* [IAAO 2010a] and section 6.)

5. Components of a Model Property Tax System: Taxation

The property tax is a key component in a balanced and equitable tax structure. This tax can provide stable and economically efficient revenue, especially for local units of government, and can be accepted provided that states frame their property tax statutes to ensure the highest possible degree of equity among property taxpayers.

The assessing officer functions more as administrator and less as policymaker in determining how taxation will occur under the property tax system. However, the assessment function is inextricably tied to the taxation function (one would not exist without the other). The assessing officer, therefore, often will be the first to be approached when system problems and confusion arise, regardless of whether the problems are related to valuation. As the professional in the best position to understand property taxes, the assessing officer should completely understand the system established by legislative bodies. The assessing officer must also understand the elements that tend to produce property taxation systems of higher quality, in terms of administrative feasibility, uniformity, and equitable treatment of property. Because the property tax rarely exists as the sole source

of revenue for any unit of government, the assessing officer should learn the general strengths and weaknesses of other taxes and fees. This knowledge will enable the assessing officer to participate more fully in discussions relating to the property tax and potential alternatives.

A framework for general tax system design criteria and the evaluation of such a system is found in Appendix D.

5.1 Visibility of Property Tax System

The workings of a property tax system should be visible to taxpayers. This means that the taxes being generated by the system should clearly be tied to the taxing units of government that use this funding source. Overall increases or decreases in property taxes thereby become a function of the changing needs of these units of government, while the assessing officer's role, which is only to determine the proper distribution of the tax, is emphasized.

5.2 Property Appraisal v. Property Tax

One of the most common misunderstandings about the property tax is the supposition that the tax is strictly value-driven and, therefore, that a 10 percent increase in appraised or assessed value must translate into a 10 percent increase in tax. Failure to understand and explain the fallacy of this perspective leads to placement of blame for all property tax increases squarely (and unfairly) on the assessing officer.

The state legislature establishes the framework for the distribution of property taxes by providing for classification, exemption, and valuation. Statutes may also control the magnitude of the property tax. By appraising property equitably and uniformly and in accordance with statutory guidelines, the assessing officer ultimately is responsible for the distribution of the property tax burden, not the magnitude of the tax. If the market value of lakefront lots doubles, but the value of all other property in the jurisdiction remains constant, these lots will bear a higher proportional share of the total property tax for the jurisdiction. That is the principle of ad valorem taxation at work. It is possible, if the system is rate-driven, that the increase in value will translate directly into higher taxes, raising the total tax charged, not just the share levied against the lakefront lots. In contrast, in a budget-driven system, higher values force rates downward and offset rising assessments. In this type of system, increases in the total amount of property tax result only from increases in budgets submitted and approved by taxing jurisdictions. This is the preferred model.

5.2.1 *Budget- v. Rate-driven Property Tax Systems*

Taxing units of government operate with dollars generated from property tax (although other revenue sources often are available, they are not the subject of this

discussion). The formula used to calculate these taxes takes one of two forms:

A. Budget-driven:

$$\text{Rate} = \frac{\text{dollars budgeted from property tax} \div \text{taxable or assessed value}}$$

or

B. Rate-driven:

$$\text{Dollars budgeted from property tax} = \text{rate} \times \text{taxable or assessed value}$$

Formula A assumes that the taxing unit starts with a budget in dollars and has subtracted all non-property-tax sources of funding. In this case, the rate is merely a mathematical result and floats upward or downward, depending on the assessed value in the unit of government. In this usage, rate is synonymous with levy, which may be expressed using percentages or mills. Formula B assumes that the taxing unit needs as much money from property tax as a certain fixed or maximum rate will generate. In this case, increases or decreases in assessed value directly affect the amount of money the unit of government can budget from property tax.

Assessing officers should discourage or offer alternatives to rate-driven property tax systems. Taxing units that generate revenue as described in Formula B justify taxpayer fears that reappraisal will probably raise their taxes and give credence to the idea that the assessing officer is controller of the magnitude, not just the distribution, of the property tax. Such taxing units are also able to hide windfalls they may reap by arguing that they did not increase their rate of taxation. Rate-driven property tax systems fail to meet the test of open and visible property taxation.

5.2.2 Truth-in-Taxation

Truth-in-taxation systems should be promoted whenever possible. Also known as truth-in-millage, truth-in-taxation systems place a notification burden on taxing units of government that are planning to increase rates or dollars to be charged. Such procedures reduce the likelihood of reappraisal-related revenue windfalls because the windfall becomes highly visible. In a truth-in-taxation system, clear, large newspaper advertisements or mailed individual notices are used to inform taxpayers of an impending increase in the rate of taxation or dollar amount to be charged. Usually, the effect of the increase on typical taxpayers must also be shown. Occasionally, such systems incorporate rollback elections or override (approval) elections. A rollback election permits voters to negate seemingly excessive increases, while an override (approval) election permits voters to approve increases over a base allowance. Truth-in-taxation systems increase the openness and visibility of the property tax and place the burden of explaining increases on units of government wanting additional revenue. In developing

and adopting a truth-in-taxation system, it is important to recognize that the more successful systems include clear individualized notices of the effect of proposed budget changes on each taxpayer's property. Systems requiring only generic notices in newspapers tend to be confusing and often do not succeed in involving taxpayers in the budget process, in promoting accountability, or in effectively explaining budget increases.

5.3 Controls on the Incidence of Property Taxation

Legislative bodies often provide measures to shift the property tax from certain groups of taxpayers. Such measures nearly always increase the property tax on non-favored groups and generally should be limited. Failure to understand this aspect of tax-shifting measures results in a hodgepodge of controls, the true effect of which becomes lost and may even shift more taxes to favored groups.

5.3.1 Exemptions

Legislative bodies should be advised to exercise caution in enacting exemptions. Property tax exemptions are subsidies to certain owners or for certain uses of property to encourage publicly desired objectives. A key principle of property tax systems is that all property is taxable unless it is specifically exempt, and exemptions are to be narrowly construed. Some exemptions, such as those provided to government property and public schools, may be conceptually supportable because the entities involved might otherwise increase taxes to pay property taxes. Other exemptions, such as for household goods, often are granted because assessment is deemed administratively infeasible.

Property tax exemptions generally take the form of partial or full exemptions that apply to various classes or types of property and lessen the taxes levied on these classes or types. In addition to complex and difficult to understand tax shifts, exemptions can decrease the tax bases available for local units of government and may increase tax rates. As a rule of thumb, no exemption should be granted unless it will be beneficial to a substantial segment of the affected population and unless all similar properties or similarly situated taxpayers are accorded the same treatment. Any proposed exemption should be analyzed to determine which groups may be helped or hurt (intentionally or inadvertently) and whether the benefits of the exemption are significantly greater than any revenue loss or tax shift. Exemptions with conflicting objectives are particularly suspect and rarely accomplish their original goals.

Property tax systems fraught with numerous exemptions typically have high rates, which are necessary to raise revenue with an artificially constrained tax base. High rates lead to additional complaints about the property tax. Numerous exemptions lead to increased administrative costs, and the property tax system becomes more

questionable and distorted from the original ad valorem principle.

5.3.1.1 *Partial Exemptions*

The assessing officer should review the structure of partial exemptions with legislators proposing such exemptions. Partial exemptions are those in which a percentage or fixed dollar amount of value is removed from the otherwise taxable value of a property. Fixed dollar exemptions, such as an exemption for the first \$10,000 of value of a primary residence, grant proportionately more relief to lower-value property, where the fixed amount may make up a significant percentage of the total taxable value. However, the effect of such an exemption is eroded by inflation when market values are increasing. Frequent legislative adjustment is necessary to maintain benefits at originally intended levels. Percentage exemptions overcome this problem but give more dollars of actual tax relief to higher-value property. Often, hybrid exemptions, combining dollar and percentage limits, may be used to focus the exemption where the legislature deems the relief is most appropriate.

The most common partial exemptions are homestead or homeowner's exemptions, in which some portion of residential property assessed or appraised value is exempt (usually restricted to the primary residence). A large number of states grant such exemptions, sometimes restricting eligibility to individuals meeting certain age or income criteria. Residential property exemptions often are supplemented by circuit breaker programs, which sometimes are used instead of the exemptions. (See section 5.3.5.) Sometimes states reimburse local governments for revenue that may be lost or taxes that may be shifted to other taxpayers as a result of residential property tax exemptions. Valuation of farmland on the basis of use or productivity value generally has the effect of providing a partial exemption, but often no percentage or dollar adjustment can be clearly determined. Therefore, the exemption is somewhat hidden.

Properties with partial exemptions require special equalization attention or other oversight to ensure equitable treatment.

Preferential treatment for farmland and open land may be abused if the land is held for speculative purposes and is only incidentally used for farming. Assessing officers should make legislative bodies aware of this issue and should seek greenbelt or rollback legislation under which land that is changed from farming to development use within a certain period must pay a penalty related to the value that was not assessed under the farm use categorization.

5.3.1.2 *Full Exemptions*

Full exemptions are granted to property, such as federal government property, that may be subject to constitutional immunity from taxation. Aside from United States constitutional restrictions, in most state consti-

tutions, the authority to grant exemptions is reserved for the legislature. Most states grant full exemptions to property owned by political subdivisions and units of government, religious and educational institutions, and charitable or benevolent societies. Aside from these common exemptions, innumerable broad or narrow special-purpose exemptions are available. The most common of these are for various personal property components, ranging from full exemptions for all personal property to business inventory exemptions to exemptions that apply only to equipment used in farming or other specified tasks. Some exemptions require highly specialized statutory definitions to prevent unintended over-broadening. For example, the difference between a qualifying charitable organization and a non-profit corporation that was not intended to enjoy the charitable exemption must be made clear.

Because of the conflicts and confusion arising from numerous exemptions and because taxpayers and legislators should understand the effect of the exemptions, all exemptions should be reviewed at regular and frequent intervals. Where practicable, each owner of exempt property should be required to apply for the exemption annually. Each taxing or assessment jurisdiction should prepare a list of exempt properties each year showing the name of the owner, the location of the property, the size and value of the property, and other relevant information.

5.3.1.3 *De Facto Exemptions*

Property tax systems inevitably include some property that is difficult administratively or politically to assess properly. Personal property, for example, may be taxable but often is underreported, and few assessors have sufficient resources to audit comprehensively. Residential property, on the other hand, is highly visible and represents a politically active sector. Often, states that do not provide homestead exemptions or other protection for residential property find de facto exemptions, in the form of systematic underassessment, substituted for statutorily allowed exemptions. Assessing officers recognizing problems of this nature should work with legislators to develop corrective procedures or guidelines. Often, exemption may be the only solution and at least has the advantage of making visible an otherwise hidden tax shift.

5.3.1.4 *Controlling Exemptions*

Assessing officers should encourage legislators to enact sunset provisions when exemptions are passed. Once granted as a result of legislative action, exemptions tend to become entrenched and thought of as rights related to property ownership. Unless specific inequities related to a previously established exemption are discovered, legislative review of existing exemptions is unlikely without sunset provisions. Such provisions specify a date in the future after which the exemption will cease to exist. Although there may still be a need

for the exemption, the expiration provision makes the exemption more visible and presents an opportunity for future legislatures to review and recertify each exemption. Sunset provisions should not apply to constitutionally mandated exemptions (prohibition on taxation of federal property, for example). Regardless of the existence of sunset provisions, assessing officers should conduct ongoing analyses of the effect of each exemption, so that information will be available in the event of legislative review.

5.3.2 Classification of Property

Classification is similar to partial exemption in that certain types of property are given favored assessment treatment. However, classification differs from exemption in that application generally is not required, because the assessor generally decides to which class a particular property belongs and automatically applies an assessment ratio to produce the required fractional assessment. As an alternative to classification that alters the assessment, some classification schemes alter the tax rate. For example, in some states low-income elderly homeowners are not required to pay the tax for school bonds or for voter-approved overrides permitting taxing jurisdictions to exceed budget or rate limits. The rate paid by these taxpayers would, therefore, be lower, although their assessments (values) would be unchanged. Although variable tax rates also can add to complexity and confusion, they maintain the independence of the appraisal and taxation processes and may, therefore, have an advantage over classification schemes for jurisdictions that do not have overall or rate uniformity requirements.

Classification does afford some protection from reappraisal effects for protected classes. However, classification violates the economic principles of ad valorem taxation because properties tend to be taxed at more or less favored percentages of value, based on political, not economic, conditions. Classification may also violate federally or constitutionally mandated protection from discrimination. For example, judicial decisions related to the federal *Railroad Revitalization and Regulatory Reform (4-R) Act of 1976* (49 USC §11503) prohibit classification that would produce a lower assessment ratio for commercial and industrial property in comparison to the property of railroads, motor carriers, and airlines. In addition, welcome stranger assessments, in which higher values are placed on the newest property owners and which result from classification or de facto classification, generally have been found unconstitutional (*Allegheny Pittsburg Coal Co. v. Webster County Commission*, 488 US 336, 109 S.Ct. 633 [1989]). An exception is the Supreme Court's decision regarding California's Proposition 13 in *Nordlinger v. Hahn* (505 US 1 [1992]). Here, the Court ruled that California's welcome stranger scheme was constitutional. A major difference between the California and West Virginia cases, however, was that in California, the system was authorized by the

state constitution; whereas, in West Virginia, welcome stranger assessing was instituted by a local jurisdiction and conflicted with uniformity provisions found in the West Virginia Constitution.

Classification also adds a significant layer of complexity and leads to added confusion about the property tax. This effect worsens as the number of classifications and variance in the percentages to be assessed grows. A system with three classes of property and assessment fractions ranging from 15 percent to 30 percent of market value may not be too difficult to understand. Some systems, however, have fifteen or more classes and fractions ranging from 3 percent to 50 percent of market value. Systems of this type should be avoided and steps should be taken to simplify whenever possible. Classification violates the visibility standard providing instead a less open system in which assessment equity errors are easier to hide and more difficult to discover. Numerous studies indicate that appraisal equity, as measured by such indicators as the coefficient of dispersion (COD), improves significantly when governments eschew fractional assessments and classification schemes for full market value. Finally, classification obscures the effective tax rate. In a classification system, the assessment fraction (ratio) for the class must be multiplied by the nominal tax rate to determine the effective tax rate. This step increases confusion and reduces understandability.

5.3.3 Abatements and Tax Increment Financing (TIF)

Careful cost-benefit analysis should be encouraged before allowing abatements or tax increment financing areas. Property tax abatements and tax increment financing systems often are used to attract businesses to economically depressed areas. Abatements may also be employed to promote residential use, to grant residential property tax relief, and to respond to appeals. Abatements typically forgive all or a portion of property taxes for a specified period of time. Tax increment financing permits a portion of the property taxes that would be generated on new development to be used by the development for expenses associated with infrastructure and improvement construction. Tax increment financing also may involve bonds that will be paid off by revenue diverted in this manner.

Both of these systems lessen the start-up costs of new, property-intensive businesses. Both systems are preferred over classification schemes and limits on assessment increases.

Abatements may ignore economic realities and may have unanticipated negative effects. For example, because the affected property will not be added to the tax rolls for several years, schools and other infrastructure needs required by the new housing associated with the jobs offered by the new business may go unmet or may inordinately increase taxes on other property.

Also, if the new business closes unexpectedly, there may be additional negative impacts, especially if many new homes and satellite businesses were built to support the new business. This sort of problem can occur especially with abatements given to mining industry property because this industry is prone to rapid boom-and-bust operation cycles.

Both abatements and tax increment financing can create or add to the administrative complexity of the property tax system and can create islands of competitive advantage that can further damage the tax base in already marginal situations. For example, if advantageous tax treatment were given to develop a regional shopping center on the outskirts of a depressed city, downtown retail establishments that received no favored treatment might close or move to this center. If the shopping center were not required to pay property taxes and the downtown businesses no longer paid any, the net loss of revenue might be greater than anticipated.

Abatements and tax increment financing tend to pit cities, counties, and even states against each other in a competition to see which area can offer the most lucrative package of tax incentives. In this situation, an objective cost/benefit analysis is even more important to ensure that the outcome is beneficial to the community.

In addition to the above concerns, assessors may be required to track property values in abatement or tax increment financing areas differently than in other areas. This may require assessors to use additional computer or staffing resources.

Finally, many studies have shown that business locational decisions are only marginally related to property tax issues, with costs of labor, availability of trained workforce, and quality of life issues often taking precedence (See, for example, New York Legislative Commission on the Modernization and Simplification of Tax Administration and the Tax Law [1984].) Assessing officers should make legislators and public officials considering abatements and tax increment financing aware of all of these issues.

5.3.4 Property Tax Deferrals

Property tax deferrals are used in some jurisdictions to relieve the tax burden on lower-income households or, in some cases, all households. Deferrals delay, but do not excuse, taxes which accrue as an increasing lien until the property is sold or the estate settled. Deferred taxes are subject to interest charges, but not to penalties, and the property is not subject to forfeiture.

Annual application requirements and interest charges tend to discourage most homeowners, who actively avoid liens of any sort and refuse to take advantage of deferral programs for this reason. Furthermore, local taxing units have added revenue uncertainty and are essentially making loans to the eligible property owners unless the state takes over the loans by replacing de-

layed revenue. Circuit breakers accomplish much of the same protection as deferrals but are financed by state governments as credits which do not need to be repaid, thereby avoiding these difficulties.

5.3.5 Circuit Breakers

Many states provide state-funded tax credits or replacement funding for local governments through programs known as circuit breakers. The difference between circuit breaker tax relief mechanisms and other exemptions is that funds are not lost to local governments and property taxes are not shifted to other classes of property because the taxes are replaced from state funds and there is no repayment provision. However, costs of relief are shifted to other taxpayers via broad-based state taxes.

Most states restrict circuit breaker benefits to low-income elderly homeowners and renters, although a few states have more broadly applied programs. Circuit breakers provide effective relief from one of the most unpalatable aspects of the property tax, its effect on homeowners with fixed incomes. Circuit breakers are especially desirable because they target relief to an identifiable group of potentially disadvantaged taxpayers, rather than providing much more expensive and less targeted across-the-board relief to all taxpayers, whether the relief is needed or not.

To be most effective, a circuit breaker's benefits should be specified as a percent of tax. Fixed dollar credits quickly become out of date, providing inflation-eroded benefits. Frequent legislative attention or automatic cost-of-living adjustments are necessary to ensure adequate current benefits.

State administrative agencies and local assessors should promote awareness of circuit breaker programs and should provide outreach and assistance to those wishing to apply for the benefits.

5.3.6 Tax Credits

Tax credits can be an effective way of reducing the financial impact of property taxes on selected types of taxpayers without affecting the assessment process or the ability of local units of government to receive funding generated from property tax. Tax credits typically are allowed in the form of reduced income tax liability resulting from a property-tax-related expense. For example, low-income renters may be permitted to impute a property tax amount that is embedded within rent paid. This amount or some percentage of this amount may then be refundable or deductible through an income tax credit.

Property tax credits generally are most efficient and feasible when administered through a state or local income tax program. Refundable credits are more cumbersome to administer, because they require money to be sent to individuals. However, refundable credits have the advantage of providing the full amount of the in-

tended credit, whereas deductions or non-refundable credits only work to the extent that offsetting income or tax liability exists.

5.4 Controls on the Overall Property Tax System

Aside from controls that shift the property tax between classes of property or to broad-based state taxes (as in the case of the circuit breaker), overall controls have a place in every property tax system. Overall controls include budget increase limits, levy rate limits, and valuation increase limits.

5.4.1 Budget Increase Limits

Regardless of whether a property tax system is budget- or rate-driven (see section 5.2.1), it may be desirable to provide an upper limit to the amount any local unit of government can increase the revenue it derives from property tax in any year. Such a system typically imposes a maximum percent increase and usually spells out parts of the taxing district budget that may be exempt from the limitation. Elective override provisions may be available, and there is usually some allowance to enable additional amounts to provide services for new construction or growth.

Budget increase limits can prevent reappraisal windfalls. However, truth-in-taxation provisions (see section 5.2.2) can do the same without necessitating a one-shoe-fits-all approach. Two fallacies plague budget increase limits. The cap may be generous for some units of government but may prevent others from adequately providing expected services. Second, ceilings often become floors. In other words, taxing units of government may be concerned about unanticipated future expenses and may feel obliged to set the maximum possible budget, even though it may not be needed.

5.4.2 Levy Rate Limits

Levy rate limits usually limit the maximum levy rate that can be charged per dollar or per thousand dollars of assessed value. When assessments are stable or increase slowly over time, levy rate limits tend to provide adequate control over the property tax system. Levy rate limits should be established by unit of government and not as an overall limit on the rate that can be charged to any given property. If a system of overall rate limits is imposed, flexible and independent operation of local taxing units of government is all but lost.

Levy rate limits fail to control property taxes when appraised values rise rapidly due to reappraisal or inflation. Under these conditions, such limits often produce revenue windfalls and foster taxpayer discontent. Because the rate has not changed, taxpayers tend to blame the assessor for the tax increase. Levy rate limits, therefore, have a place as part of a control system but should be coupled with budget or truth-in-taxation constraints.

5.4.3 Valuation Increase Limits

Limits that constrain changes in assessed or appraised value of property may appear to provide control but actually distort the distribution of the property tax, destroying property tax equity and increasing public confusion and administrative complexity. Owners whose properties are increasing in value more rapidly than the permitted rate of increase (say, 5 percent) receive a windfall at the expense of those whose properties are decreasing in value or are increasing at lower rates. In addition, value increase limits typically tend to reduce taxes the most for the small number of properties with the largest increases. As a result, some properties, which would have increased in value more than the constraint, are held to lower assessed values yet would pay higher taxes with the constraint. This effect is invisible to the taxpayer and therefore especially deceptive. In effect, valuation increase limits result in lower effective property tax rates for owners of desirable property and higher effective property tax rates for owners of less desirable property. Similarly, when state funds are distributed to school districts or other taxing jurisdictions based on taxable property value (indirect equalization), funding will tend to shift from poorer areas to wealthier areas with rapid appreciation—an illogical and undesirable result. Legislators and the public should be made aware of the inequities resulting from valuation increase limits and be actively discouraged from pursuing such limitations. Any other control is preferable.

Valuation increase limits create the most distortion in horizontal equity because similarly situated properties no longer pay proportionately equal taxes. Vertical equity issues are less certain, especially if return to market value occurs only on condition of sale and if owners of low-value properties have lower income and are less mobile.

5.5 Analytical Resources

Whenever resources permit, local assessors and (more commonly) state assessment administrative agencies should maintain tax research staff to provide objective information to the public and to the executive and legislative branches concerning the property tax system in place and the effects of any proposed system changes. A department of this type should provide ongoing or annually updated analysis of issues that tend to be of continuing importance. Tax analysis should be included as a task for research staff, who should be supported with adequate computer systems and data entry personnel.

In addition to analytical studies of issues and proposals, resources in this area should be employed in reviewing proposed legislation at an early stage and providing input as to effects. It may also be useful to enlist analytical staff in reviewing legislative language to determine if a proposal will function as intended. Assistance from trained legal staff will be necessary to accomplish this task properly.

6. Public Relations

State and local assessing officials should consider public relations to be an inherent role of considerable importance. Public relations helps demonstrate that the assessing officer understands the factors influencing value in the community. It also enables the assessing officer to explain and clarify the property tax and helps taxpayers understand whether they are being treated in a fair and equitable manner. Through effective public relations, the property tax becomes more visible, and misunderstandings that may lead to unwarranted appeals and misguided complaints may be prevented. The assessing officer can build trust and confidence in both valuation and taxation systems and can demonstrate willingness to work toward reform in areas perceived to be inequitable. (See section 4.7 and *Standard on Public Relations* [IAAO 2010a].)

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Glossary

Abatement. (1) An official reduction or elimination of one's assessed valuation after completion of the original assessment. (2) An official reduction or elimination of one's tax liability after completion of the assessment roll.

Acquisition Value. The market value of property at the time it was acquired by the present owner or of the last major physical change.

Appeal. A process in which a property owner contests an assessment either informally or formally.

Assessment, acquisition-value-based. A system of valuing property at its market value as of the last transfer of ownership or of the last major physical change. A property is placed on the tax roll at its acquisition value. Values usually are permitted only limited annual increases but may be updated when major physical changes occur or when the property is sold. The system established by California's Proposition 13 is an example. See also welcome stranger assessment.

Assessment Level. The common or overall ratio of assessed values to market values.

Assessment Progressivity (Regressivity). An appraisal bias such that high-value properties are appraised higher (or lower) than low-value properties in relation to market values.

Assessment Ratio. (1) The fractional relationship an assessed value bears to the market value of the property in question. (2) By extension, the fractional relationship the total of the assessment roll bears to the total market value of all taxable property in a jurisdiction.

Audit. A systematic investigation or appraisal of procedures or operations for the purpose of determining conformity with specifically prescribed criteria.

Audit, Performance. An analysis of an organization to determine whether or not the quantity and quality of work performed meets standards. Ratio studies are an important part of performance audits of an assessing organization.

Audit, Procedural. An examination of an organization to determine whether established or recommended procedures are being followed.

Circuit Breaker. For qualifying property owners, a credit or rebate of specified amounts of property taxes incurred, whenever such taxes exceed specified percentages or amounts of household income. In instances where renters are included, rent or rent equivalents substitute for property taxes.

Classification. The act of segregating property into two or more classes for the application of different effective tax rates by means of one or more special property taxes or a classified property tax system.

Coefficient of Dispersion. The average deviation of a group of numbers from the median expressed as a percentage of the median. In ratio studies, the average percentage deviation from the median ratio.

Credit, Property Tax. An offset against the property tax payment or another tax payment for taxpayers who meet certain criteria (for example, renters), or whose properties have certain characteristics or are used for specified purposes (for example, pollution abatement); a direct reduction in a tax payment rather than in a tax base.

Effective Tax Rate. (1) The tax rate expressed as a percentage of market value; will be different from the nominal (or stated) tax rate when the assessment ratio is not equal to 1. (2) The relationship between dollars of tax and dollars of market value of a property. The rate may be calculated either by dividing tax by value or by multiplying a property's assessment level by its nominal tax rate.

Elasticity (tax). A measure of the responsiveness of tax yields to changes in economic conditions. The yield of an elastic tax increases rapidly in a growing economy. The yield of an inelastic tax increases slowly. Often measured by the formula:

$$\frac{\text{Percentage change in tax}}{\text{Percentage change in personal income}}$$

Equalization. The process by which an appropriate governmental body attempts to ensure that all property

under its jurisdiction is assessed at the same assessment ratio or at the ratio or ratios required by law. Equalization may be undertaken at many different levels. Equalization among use types (such as agricultural and industrial property) may be undertaken at the local level, as may equalization among properties in a school district and a transportation district. Equalization among counties is usually undertaken by the state to ensure that its aid payments are distributed fairly.

Equity. (1) In assessment, the degree to which assessments bear a consistent relationship to market value. Measures include the coefficient of dispersion, coefficient of variation, and price-related differential. (2) In popular usage, a synonym for tax fairness. (3) In ownership, the net value of property after liens and other charges have been subtracted.

Exemption, Homestead. Freedom from property taxation of all or part of the value of a homestead; a reduction in the property tax base.

Fairness. See *equity*.

Fractional Assessments. Assessments that by law or by practice have assessment ratios different from 1. Usually the assessment ratio is less than 1 and, if assessment biases are present, different classes of property may have different fractional ratios. Fractional assessments are often condemned as offering a way to obscure assessment biases.

Levy, Property Tax. (1) The total amount of money to be raised from the property tax as set forth in the budget of a taxing jurisdiction. (2) Loosely, by extension, the millage rate or the property tax bill sent to an individual property owner.

Market Value. Market value is the major focus of most real property appraisal assignments. Both economic and legal definitions of market value have been developed and refined. A current economic definition agreed upon by agencies that regulate federal financial institutions in the United States is:

The most probable price (in terms of money) which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

The buyer and seller are typically motivated;

Both parties are well informed or well advised, and acting in what they consider their best interests;

A reasonable time is allowed for exposure in the open market;

Payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and

The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Millage, Mill Rate. A tax rate expressed as mills per dollar. For example, a 2 percent tax rate is \$2 per \$100, \$20 per \$1,000, or 20 mills per dollar. One mill is one-thousandth of one dollar or one-tenth of one cent.

Nominal Tax Rate. The property tax rate expressed as mills per dollar of assessed value or as a percentage of assessed value. In a classified property valuation system, the nominal rate can be converted to an effective tax rate by multiplying by the appropriate fractional rate of assessment (assessed value as a percent of appraised value).

Own-Source Revenue. Government funding that only comes from within the jurisdiction under consideration. For local governments, this means that it excludes revenue received from federal and state intergovernmental grants; it may include taxes, current charges, and miscellaneous revenue collected by the jurisdiction. Alternatively, general revenue minus intergovernmental revenue.

Progressive tax system. A method of taxation in which those with more resources pay a greater percentage of their resources than those with less resources. Income progressivity occurs in a tax system under which a taxpayer's average tax rate increases with income. This is often the case with income taxation based on multiple rates. Assessment progressivity occurs when effective property tax rates on higher-value properties are greater than effective property tax rates on lower-value properties.

Rate-driven Levy. The property tax rate to be applied is specified in the budget or tax levy ordinance of a taxing jurisdiction, as opposed to the situation in which the total revenue to be raised is specified and the rate is calculated.

Ratio Study. A study of the relationship between appraised or assessed values and market values. Indicators of market values may be either sales or independent expert appraisals. Of common interest in ratio studies are the level and uniformity of the appraisals or assessments.

Regressive tax system. A method of taxation in which those with less resources pay a higher percentage of their resources than those with more resources. Income regressivity occurs when people with lower incomes pay a higher percentage of their incomes in taxes than people with higher incomes. This often occurs in sales tax systems where the tax is applied to groceries and other necessities. Assessment regressivity occurs when assessment levels or effective property tax rates on lower-value properties are greater than assessment levels or effective property tax rates on higher-value properties.

Sunset Provision. A provision within a statute creating a

law or agency which provides for its automatic termination at a fixed date in the future.

Tax Burden. Economic costs or losses resulting from the imposition of a tax. Burden can be determined only by detailed economic analysis of all economic changes resulting from the tax. In popular usage, the term often refers to the initial incidence rather than ultimate economic costs.

Tax Incidence. The distribution of a tax on natural persons who bear the tax after the completion of the process of tax shifting, to be distinguished in particular from the distribution of the tax on the persons, natural or legal, who pay it in the first instance.

Tax Incidence Analysis. Economic analysis that compares the way different taxes affect the distribution of income. It requires analysis of the impact of taxes on the market for the taxed item and the market for all factors (land, labor, and capital) used in producing the taxed item.

Tax Increment Financing (TIF). The idea that property taxes, or other revenue, resulting from an increase in a tax base (for example, property values or retail sales) in a specific area can be used to repay the costs of investment in that area. Funds may be invested in various programs, such as public infrastructure improvements or land writedown subsidies to private investors.

Tax Policy Analysis. The process of gathering and interpreting economic data to provide information that can be used by policymakers to formulate tax policy.

Truth-in-Taxation (Full Disclosure) Requirements. Legal obligations for local government officials to make taxpayers aware of assessment increases, levy increase proposals, and the like and to give taxpayers an opportunity to participate in public hearings on the changes.

Wealth. Valuable material objects which are owned, either individually or collectively, that is, all tangible property. Note: In popular usage the term wealth is synonymous with property and, as such, embraces intangibles as well as tangible property. This usage is considered incorrect by economists and is not recommended. Intangible property, with the possible exception of goodwill, patents, and the like, is not a real source of income but only a means of distributing income derived from the two primary sources: tangible property and persons. The adding together of tangible property and intangibles to determine total wealth results in multiple counting of the same values. Some authorities consider non-representative intangible property as wealth, but this usage has received only limited acceptance.

Welcome Stranger Assessment. The practice of systematically assessing recently sold properties on the basis of their sales prices while failing to reassess similar properties that have not recently sold. See also assessment, acquisition-value based.

Appendices Overview

Appendices A, B, and C are presented as examples of the measurement of tax incidence or burden. Before relying on such surveys, the reader should review their data and methods for accuracy. Appendix D discusses criteria for evaluating property tax systems.

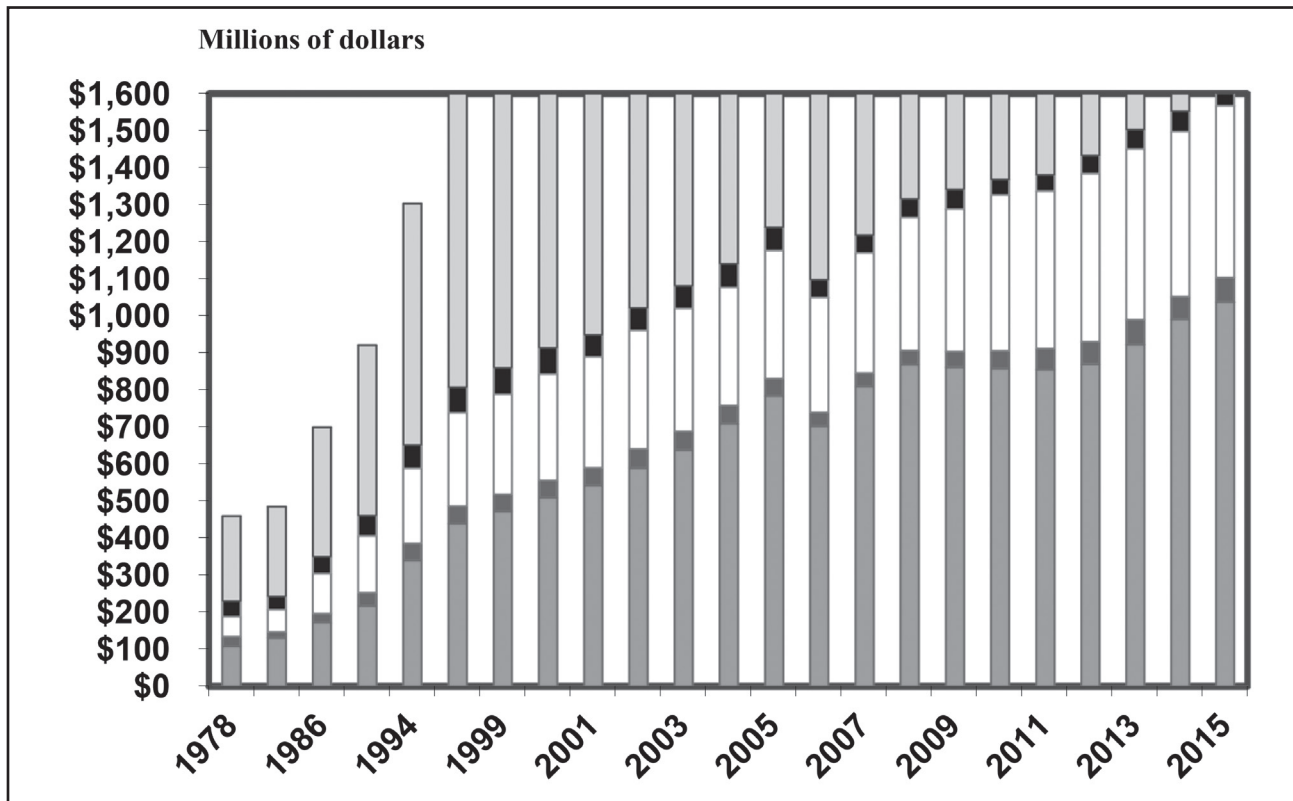
Appendix A consists of two bar charts that represent examples of tax analysis. These bar charts break down the amount of property tax paid in one state (Idaho) by sector (category) and show the effect of inflation.

Appendix B consists of two tables that examine property tax burden in relation to income and population. All states and the District of Columbia are compared to the United States average, which is represented mathematically by a tax effort of 100 percent. Under- or overutilized tax potential represents the difference between the amount of tax per dollar of income versus the amount of tax that would be raised by the United States average rate, if applied to the income in a particular state (tax capacity). Tax effort is the percentage of tax capacity represented by actual tax revenue in each state. A state with a tax effort of 100 percent would be one in which the effective tax rate equals the United States average. Table 1 shows tax capacity and effort in comparison to income and table 2 shows these measurements in comparison to population (per capita). Data for these tables is made available by the U.S. Census Bureau and can be found at: <http://www.census.gov/govs/>. Fiscal year 2007 data was the most current available at the time of the most recent revision.

Appendix C is taken from table 1 found in the 2008 version of *Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison*, an annually updated study produced by the District of Columbia Department of Finance and Revenue. Table 1 indicates the estimated burden of all major taxes on a family of three earning \$50,000. Similar tables are available for families earning various other amounts. Other tables in this study examine progressivity of state and local tax structures. The District of Columbia study can be found at http://cfo.dc.gov/cfo/frames.asp?doc=/cfo/lib/cfo/cash_reports/08study-final.pdf.

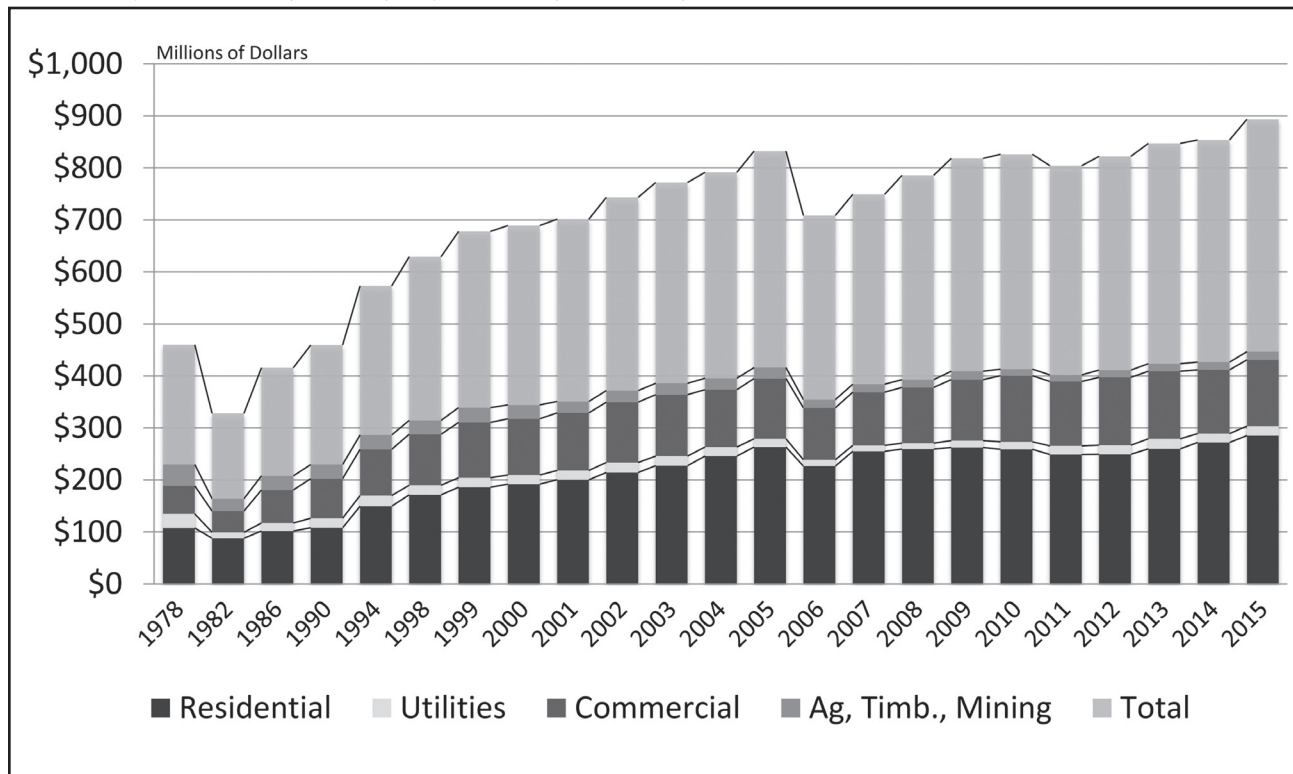
Appendix A. Property Taxes by Major Category of Property

Figure 1. Property Taxes by Major Category of Property in Current Dollars



Source: Idaho State Tax Commission, Property Tax Division; adapted from cumulative annual market value reports

Figure 2. Adjusted Property Taxes by Major Category of Property in Constant 1978 Dollars



Source: Idaho State Tax Commission, Property Tax Division; adapted from cumulative annual market value reports

Appendix B. Property Tax Burden in Relation to Income and Population

Table 1. FY 2013 PROPERTY TAX BURDEN—BASED ON TOTAL PERSONAL INCOME

State	Personal Income FY 2013 \$ Million	State & Local FY-13 Property Tax Revenue \$ Million	Tax Capacity Potent. Tax Coll. (\$ M.) (Ave. Rate * Pers. Inc.)	Underutil. Potential: (Overutil.) \$ Million (C4-C3)	Ave Actual Tax Rate: Col. 3 /Col. 2 (% of Inc.)	Tax Effort: % of Tax Capacity Utilized (C3/C4)	Rank: Based on Tax Effort
United States	14,018,965	455,441.8			3.25%		
Alabama	174,282	2,645.3	5,662.0	3,016.7	1.52%	46.7%	50
Alaska	38,016	1,411.0	1,235.0	(176.0)	3.71%	114.2%	12
Arizona	242,852	6,688.6	7,889.7	1,201.0	2.75%	84.8%	32
Arkansas	108,137	1,949.6	3,513.1	1,563.5	1.80%	55.5%	49
California	1,836,430	52,442.7	59,661.1	7,218.4	2.86%	87.9%	28
Colorado	244,304	7,027.8	7,936.8	909.1	2.88%	88.5%	27
Connecticut	225,195	9,806.5	7,316.0	(2,490.5)	4.35%	134.0%	8
Delaware	41,297	763.4	1,341.6	578.2	1.85%	56.9%	48
Dist. of Col.	44,182	1,969.7	1,435.4	(534.3)	4.46%	137.2%	7
Florida	806,604	23,817.7	26,204.6	2,386.9	2.95%	90.9%	25
Georgia	373,357	10,100.0	12,129.5	2,029.4	2.71%	83.3%	33
Hawaii	62,275	1,328.6	2,023.2	694.5	2.13%	65.7%	43
Idaho	56,686	1,431.4	1,841.6	410.2	2.53%	77.7%	37
Illinois	597,606	25,541.1	19,414.8	(6,126.3)	4.27%	131.6%	10
Indiana	251,266	6,358.4	8,163.0	1,804.7	2.53%	77.9%	36
Iowa	134,644	4,683.8	4,374.2	(309.5)	3.48%	107.1%	17
Kansas	127,222	4,125.4	4,133.1	7.8	3.24%	99.8%	21
Kentucky	157,802	3,217.9	5,126.6	1,908.8	2.04%	62.8%	46
Louisiana	188,452	3,931.0	6,122.3	2,191.3	2.09%	64.2%	45
Maine	52,589	2,533.9	1,708.5	(825.4)	4.82%	148.3%	5
Maryland	312,975	8,927.9	10,167.8	1,239.9	2.85%	87.8%	30
Massachusetts	379,412	13,883.8	12,326.2	(1,557.6)	3.66%	112.6%	13
Michigan	385,781	13,069.5	12,533.1	(536.5)	3.39%	104.3%	18
Minnesota	256,363	8,386.6	8,328.6	(58.0)	3.27%	100.7%	20
Mississippi	99,589	2,689.5	3,235.4	545.9	2.70%	83.1%	34
Missouri	242,692	5,902.0	7,884.5	1,982.5	2.43%	74.9%	39
Montana	39,562	1,426.8	1,285.3	(141.6)	3.61%	111.0%	14
Nebraska	85,912	3,081.7	2,791.1	(290.6)	3.59%	110.4%	16
Nevada	109,373	2,713.1	3,553.3	840.2	2.48%	76.4%	38
New Hampshire	66,987	3,558.5	2,176.3	(1,382.3)	5.31%	163.5%	2
New Jersey	491,160	26,624.1	15,956.6	(10,667.5)	5.42%	166.9%	1
New Mexico	73,874	1,428.6	2,400.0	971.4	1.93%	59.5%	47
New York	1,056,459	49,101.0	34,321.8	(14,779.2)	4.65%	143.1%	6
North Carolina	375,375	8,892.0	12,195.0	3,303.1	2.37%	72.9%	40
North Dakota	39,516	825.2	1,283.8	458.6	2.09%	64.3%	44
Ohio	469,757	14,060.4	15,261.3	1,200.8	2.99%	92.1%	23
Oklahoma	160,835	2,293.3	5,225.2	2,931.8	1.43%	43.9%	51
Oregon	153,477	5,047.6	4,986.1	(61.5)	3.29%	101.2%	19
Pennsylvania	588,045	17,591.7	19,104.1	1,512.4	2.99%	92.1%	24
Rhode Island	48,591	2,402.8	1,578.6	(824.2)	4.94%	152.2%	4
South Carolina	168,246	5,138.0	5,465.9	327.9	3.05%	94.0%	22
South Dakota	37,548	1,040.2	1,219.8	179.7	2.77%	85.3%	31
Tennessee	254,692	5,444.9	8,274.3	2,829.4	2.14%	65.8%	42
Texas	1,150,753	41,341.9	37,385.2	(3,956.7)	3.59%	110.6%	15
Utah	104,703	2,763.3	3,401.5	638.3	2.64%	81.2%	35
Vermont	27,928	1,462.1	907.3	(554.8)	5.24%	161.1%	3
Virginia	405,973	11,826.4	13,189.1	1,362.6	2.91%	89.7%	26
Washington	329,746	9,415.7	10,712.6	1,296.9	2.86%	87.9%	29
West Virginia	65,546	1,479.0	2,129.4	650.4	2.26%	69.5%	41
Wisconsin	244,614	10,583.5	7,354.6	(1,878.0)	4.40%	125.5%	10
Wyoming	30,283	1,267.0	897.5	(365.9)	4.93%	140.8%	4

Source: http://tax.idaho.gov/reports/EPB00074_11-09-2015.pdf (accessed June 27, 2016)

Appendix B. Property Tax Burden in Relation to Income and Population

Table 2. FY 2009 Per Capita Property Tax Burden

04/08/2016 State	July 1, 2013 Population in Millions	Property Tax Revenue \$ Million	Per Capita Tax Capacity (\$)	Tax Effort: Per Capita Tax Capacity Index	Rank: Based on Tax Effort
United States	316.498	455,441.8			
Alabama	4.834	2,645.3	6,956.15	38.0%	51
Alaska	0.737	1,411.0	1,060.92	133.0%	11
Arizona	6.635	6,688.6	9,547.80	70.1%	34
Arkansas	2.959	1,949.6	4,257.68	45.8%	49
California	38.431	52,442.7	55,303.00	94.8%	23
Colorado	5.272	7,027.8	7,586.56	92.6%	25
Connecticut	3.599	9,806.5	5,179.47	189.3%	3
Delaware	0.925	763.4	1,331.43	57.3%	45
Dist. of Col.	0.649	1,969.7	934.07	210.9%	1
Florida	19.600	23,817.7	28,204.96	84.4%	29
Georgia	9.995	10,100.0	14,382.52	70.2%	33
Hawaii	1.409	1,328.6	2,027.54	65.5%	39
Idaho	1.613	1,431.4	2,320.89	61.7%	42
Illinois	12.891	25,541.1	18,549.58	137.7%	10
Indiana	6.571	6,358.4	9,455.29	67.2%	37
Iowa	3.092	4,683.8	4,449.90	105.3%	17
Kansas	2.896	4,125.4	4,167.07	99.0%	20
Kentucky	4.400	3,217.9	6,331.03	50.8%	47
Louisiana	4.629	3,931.0	6,661.57	59.0%	43
Maine	1.329	2,533.9	1,912.01	132.5%	12
Maryland	5.939	8,927.9	8,545.88	104.5%	18
Massachusetts	6.709	13,883.8	9,654.11	143.8%	9
Michigan	9.898	13,069.5	14,243.56	91.8%	26
Minnesota	5.422	8,386.6	7,802.38	107.5%	16
Mississippi	2.992	2,689.5	4,305.80	62.5%	41
Missouri	6.045	5,902.0	8,698.67	67.8%	35
Montana	1.015	1,426.8	1,460.40	97.7%	21
Nebraska	1.869	3,081.7	2,689.46	114.6%	14
Nevada	2.791	2,713.1	4,016.98	67.5%	36
New Hampshire	1.323	3,558.5	1,903.25	187.0%	4
New Jersey	8.912	26,624.1	12,823.70	207.6%	2
New Mexico	2.087	1,428.6	3,003.05	47.6%	48
New York	19.696	49,101.0	28,342.20	173.2%	5
North Carolina	9.849	8,892.0	14,172.65	62.7%	40
North Dakota	0.724	825.2	1,041.63	79.2%	31
Ohio	11.572	14,060.4	16,652.18	84.4%	30
Oklahoma	3.853	2,293.3	5,544.66	41.4%	50
Oregon	3.928	5,047.6	5,652.51	89.3%	27
Pennsylvania	12.781	17,591.7	18,392.36	95.6%	22
Rhode Island	1.053	2,402.8	1,515.78	158.5%	7
South Carolina	4.772	5,138.0	6,866.83	74.8%	32
South Dakota	0.846	1,040.2	1,216.69	85.5%	28
Tennessee	6.497	5,444.9	9,349.61	58.2%	44
Texas	26.506	41,341.9	38,141.77	108.4%	15
Utah	2.903	2,763.3	4,177.13	66.2%	38
Vermont	0.627	1,462.1	902.05	162.1%	6
Virginia	8.270	11,826.4	11,901.08	99.4%	19
Washington	6.974	9,415.7	10,035.26	93.8%	24
West Virginia	1.854	1,479.0	2,667.33	55.4%	46
Wisconsin	5.743	10,583.5	8,264.14	128.1%	13
Wyoming	0.583	1,267.0	839.26	151.0%	8

Source: http://tax.idaho.gov/reports/EPB00074_11-09-2015.pdf (accessed June 27, 2016)

*Definitions

Tax Capacity. The tax capacity of a state is the amount of tax that would be raised if the national average tax rate, computed in comparison to income or population, were applied to the income or population in that state.

Tax Effort. Tax effort is the percent of a state's tax capacity that is actually used. It is determined by dividing the actual tax collections for the state by that state's tax capacity. It is expressed as an index, standardized around the number 100, so a tax effort of 100 indicates that a state's effective tax rate (computed on either an income or population basis) equals the U.S. average. Tax efforts that exceed 100 indicate that a state's effective tax rate exceeds the U.S. average.

Underutilized Potential. A state's potential tax collections are determined by calculating the amount of tax that would be raised in that state using the national average tax rate (tax capacity). If a state's actual tax collections are less than this amount, the state is said to be underutilizing potential taxes. If a state's actual tax collections exceed the amount calculated using the national average rate, the state is said to be overutilizing potential taxes. The difference between the state's potential and actual tax collections equals the amount of under or overutilized potential.

Appendix C. Property Tax Burden in Relation to Family Size and Income

Table 1. Estimated Burden of Major Taxes for a Hypothetical Family of Three, FY 2014 \$50,000

Rank	City	ST	Taxes				Burden	
			Income	Property	Sales	Auto	Amount	Percent
1	Detroit	MI	2,679	3,316	826	175	6,996	14.0%
2	Bridgeport	CT	523	4,953	886	393	6,755	13.5%
3	Newark	NJ	564	4,928	950	135	6,577	13.2%
4	Philadelphia	PA	3,442	1,329	936	290	5,997	12.0%
5	Baltimore	MD	1,965	3,008	603	282	5,857	11.7%
6	Milwaukee	WI	1,051	3,449	794	266	5,559	11.1%
7	New York	NY	2,157	1,309	1,673	229	5,368	10.7%
8	Chicago	IL	2,066	1,693	1,046	368	5,173	10.3%
9	Kansas City	MO	1,532	1,831	1,462	333	5,158	10.3%
10	Boston	MA	2,017	2,022	822	293	5,153	10.3%
11	Columbus	OH	1,988	1,839	963	210	5,000	10.0%
12	Providence	RI	815	2,733	621	761	4,930	9.9%
13	Los Angeles	CA	201	2,988	1,239	348	4,775	9.5%
14	Des Moines	IA	1,355	2,278	712	424	4,769	9.5%
15	Burlington	VT	680	2,876	891	257	4,704	9.4%
16	Charlotte	NC	1,895	1,373	979	402	4,649	9.3%
17	Portland	ME	908	2,541	797	382	4,627	9.3%
18	Louisville	KY	2,068	1,334	851	292	4,546	9.1%
19	Atlanta	GA	1,897	1,323	1,052	257	4,529	9.1%
20	Jackson	MS	973	1,785	1,621	145	4,524	9.0%
21	Portland	OR	2,012	2,202	-	284	4,498	9.0%
22	Birmingham	AL	1,900	755	1,610	172	4,436	8.9%
23	Columbia	SC	1,168	1,416	1,387	440	4,412	8.8%
24	Indianapolis	IN	2,347	966	825	211	4,349	8.7%
25	Minneapolis	MN	1,346	1,407	1,176	286	4,216	8.4%
26	Salt Lake City	UT	1,499	1,271	1,031	307	4,109	8.2%
27	Little Rock	AR	1,267	1,060	1,428	288	4,043	8.1%
28	Omaha	NE	866	1,939	993	235	4,033	8.1%
29	Wichita	KS	1,056	1,152	1,330	386	3,925	7.8%
30	Phoenix	AZ	619	1,718	1,269	288	3,894	7.8%
31	Virginia Beach	VA	1,467	1,251	628	500	3,846	7.7%
32	Charleston	WV	1,778	762	887	411	3,839	7.7%
33	Memphis	TN	-	1,891	1,679	264	3,833	7.7%
34	Boise	ID	1,366	1,096	1,047	213	3,722	7.4%
35	Oklahoma City	OK	877	1,175	1,413	191	3,655	7.3%
36	New Orleans	LA	1,075	819	1,618	136	3,648	7.3%
37	WASHINGTON	DC	1,557	759	946	219	3,481	7.0%
38	Denver	CO	1,099	1,034	1,121	188	3,442	6.9%
39	Wilmington	DE	1,531	1,724	-	184	3,439	6.9%
40	Albuquerque	NM	742	1,776	766	151	3,435	6.9%
41	Manchester	NH	-	2,774	290	288	3,352	6.7%
42	Billings	MT	1,627	1,186	21	390	3,224	6.4%
43	Honolulu	HI	1,320	672	837	254	3,083	6.2%
44	Houston	TX	-	1,642	1,164	240	3,046	6.1%
45	Las Vegas	NV	-	1,546	1,157	338	3,041	6.1%
46	Seattle	WA	-	1,445	1,321	274	3,041	6.1%
47	Fargo	ND	197	1,708	923	159	2,988	6.0%
48	Sioux Falls	SD	-	1,548	923	198	2,669	5.3%
49	Jacksonville	FL	-	1,318	919	223	2,461	4.9%
50	Anchorage	AK	-	1,543	-	377	1,920	3.8%
51	Cheyenne	WY	-	841	597	271	1,708	3.4%
47	Fargo	ND	467	1,407	862	194	2,931	5.9%
48	Sioux Falls	SD	0	1,273	1,326	174	2,773	5.5%
49	Jacksonville	FL	0	1,511	1,053	187	2,751	5.5%
50	Anchorage	AK	0	2,338	0	100	2,438	4.9%
51	Cheyenne	WY	0	812	956	316	2,085	4.2%
AVERAGE 1/ MEDIAN			\$1,416 1,361	\$1,790 1,546	\$1,021 957	\$286 274	\$4,205 4,109	8.4% 8.2%

<http://cfo.dc.gov/sites/default/files/dc/sites/ocfo/publication/attachments/2014%2051City%20Study.pdf>

(accessed (accessed June 27, 2016)

1/ Based on cities actually levying tax.

Appendix D

Criteria for Evaluating Property Tax Systems

A property tax system does three things: it identifies and links taxable subjects (taxpayers) and objects (taxable property), it produces tax assessments, and it collects taxes. If any of these is done poorly, tax equity will suffer, revenue generation also may suffer, and public acceptance will erode. A tax system may be thought of as comprising policies, procedures, data, technology, and people. The time dimension is important as well. From another perspective, the system consists of an administrative or internal control component, an assessment component, and a collection component. The administrative component controls the other two. The assessment component determines who is to pay a tax and the size of each taxpayer's share of total taxes. The valuation system and the administration of exemptions and relief measures are parts of the assessment component. The collection component receives tax payments, accounts for them, and deposits receipts in the appropriate treasury.

A number of criteria have been used to evaluate taxes. These criteria fall into administrative, social justice, economic, and political categories. Some criteria are complementary; others are mutually exclusive. In the final analysis, most are based on common sense. Notions of fairness, equity, and uniformity predominate. The criteria used as a rationale for, or to criticize, the property tax include:

Uniformity. Uniformity implies proportional taxation, often in relation to ability to pay. As succinctly as anyone, the art critic Bernard Berenson expressed the wisdom of uniformity in taxation: Governments last as long as the undertaxed can defend themselves against the overtaxed. Governments wishing to maintain popular support must concede the desirability of uniform taxation (1952).

Adhering to a policy of uniformity has several requirements. First, a definition of uniformity is needed. By definition, an ad valorem tax is proportional to value. Property tax laws address uniformity in two ways: (1) tax rates and (2) assessment ratios (the percentage assessed values are of appraised values). Both must be uniform to achieve uniform effective tax rates (a property's effective tax rate is the property taxes assessed against it divided by its value). In addition, actual assessment ratios must approximate legal ratios. Achieving this requires accurate, or at least uniform, valuations.

Second, responsibilities for departures from uniformity must be clearly assigned. That is, taxpayers must be able to distinguish between, on the one hand, differentials in tax burdens caused by differential tax rates, assessment ratios, exemptions, limits on changes in assessments, and the like and, on the other hand, dif-

ferentials caused by nonuniform valuations. This also is a transparency requirement.

Third, there must be a clear standard of value. Current market value provides the fairest, most objective basis for an ad valorem tax. Revenue needs may change annually. So may property values. Some properties will increase in value while others decline. A uniform relationship between property value and property taxes can be maintained only if current market value is the basis of assessments.

Last, the things to be valued (and taxed) must be clearly defined in legislation. All taxable property in a tax district must be discovered and accurately described.

A policy of uniformity also can have a buoyancy benefit. When effective tax rates are uniform, governments can more easily identify a publicly acceptable rate of tax. When effective tax rates are not uniform, which occurs when valuations are out of date, governments take their rate-setting cues from relatively over-valued taxpayers. As a result, they decide upon a general rate of tax that is lower than the rate the under-valued would accept. Consequently, less revenue can be raised than when valuations are uniform.

Neutrality. A common economic objective is neutrality, which has to do with designing the property tax so that it does not distort economic decisions. A uniform, broad-based tax is likely to be neutral. Neutrality improves economic efficiency. An efficient tax encourages an optimal mix of the factors of production (labor, capital, management, and land), which according to economic theory increases general welfare. High taxes on one factor of production tend to shift investment toward others with lower taxes. However, one must distinguish the initial impact of a tax from its ultimate incidence. For example, a tax levied on the owners of apartment buildings might be passed along to tenants in the form of higher rents. Such shifting might be part of the rationale for some forms of discriminatory taxation; businesses, in effect, are viewed as tax collectors.

Harmony with Social and Economic Policies. Property taxes often are made deliberately non-neutral in order to further some social or economic policy. The list of possible objectives is endless. Common objectives include making housing more affordable (particularly for families with limited income); encouraging good works by nonprofit organizations; encouraging economic development; preserving farmland, forests, open space, wetlands, and historic buildings; protecting the environment; and expressing gratitude for military service in times of war.

Public Acceptance. Public acceptance will be the cumulative effect of many things, including level of tax, ease of

payment, benefits received, openness, and perceived fairness. A genuine commitment to public service and a successful public education program can build public acceptance.

Business and Investment Climate. The rationale for equitable taxation of business property is the need to provide a level playing field: overtaxed properties are at a competitive disadvantage. However, tax incentives, although deliberate departures from the uniformity principle, are sometimes used to subsidize particular industries or to attract business and investment.

Openness or Transparency. Transparency is achieved when the system is understandable. Simplicity improves transparency. Transparency also goes hand in hand with openness. In an open system, taxpayers can easily obtain information, ask questions, lodge appeals, and make payments. Transparency improves accountability and is a characteristic of democratic government. The concept also can be applied to property markets. Open markets function better.

Cost-effectiveness. Conceptually, a cost-effective property tax system is one in which virtually all taxable property is discovered, valuation and other assessment errors are minimized, tax collections approach 100 percent of the total amount due, and the costs of administration (including taxpayers' compliance costs) are minimized. In practice, it is difficult to express all effectiveness measures in monetary terms, and each criterion must be evaluated separately. As illustrated in *Improving Real Property Assessment: A Reference Manual* (IAAO 1978, section 2.3), the notion of cost-effectiveness embodies the economic concepts of marginal utility and diminishing returns. That is, a certain level of expenditure is needed before any measure of effectiveness can be achieved, but the optimal level of expenditure may be significantly below the level of expenditure that maximizes effectiveness. However, one can sometimes change a property tax system (for example, by installing a newer computer system) to achieve an increase in effectiveness without additional cost.

Buoyancy. The ability of tax yields to rise (and fall) with the economy and with revenue needs. Buoyancy is a characteristic of value-based property tax systems, but assessed valuations must be updated as the underlying market values change.

A Balanced Revenue System. Public finance scholars usually advocate a balanced revenue system. That is, the system should include several taxes and other sources of revenue. A tax on the capital value, or current market value of immovable property, can be an important part of such a system. Such a tax has a stable and reliable base, which is attractive during economic swings. If revaluations are frequent, the base also can be buoyant during periods of economic growth or inflation. Property value can be a good measure of a taxpayer's wealth or ability to pay. Many public services provided through property taxation are thought to protect

property investments and, indeed, may increase property value.

Dedicated Source of Revenue, Local Government Autonomy, and Accountability. This issue is related to balancing the revenue system in that property taxes frequently are viewed as a dedicated source of revenue for local governments. Property taxes are uniquely suited to this purpose for several reasons. The immovability of the tax base makes clear which government is entitled to the tax revenue. Local government services often are provided to properties or their owners and occupants. The tax captures for local government some of the increases in the value of property that are partially created by public expenditures. Having a dedicated source of revenue promotes local autonomy. The visibility of property taxes focuses attention on the overall quality of governance and promotes accountability. The property tax is the only tax that affords taxpayers the opportunity to review and challenge not only their assessments, but also the assessments on similar or surrounding properties.

Administrative Practicality. A tax on immovable property has the virtue of being administratively practical. In contrast with sales and income taxes, the property tax base is easily identified. The property tax is difficult to avoid. The costs of property tax administration compare favorably with the costs of administering sales and income taxes when taxpayers' compliance costs are considered.

A Valuable Fund of Land Information. Although capturing data on land and building characteristics is costly, the information collected is valuable. If up-to-date and publicly available, the information has many governmental and private uses. Satisfying private needs for land and building data can provide a source of revenue to defray part of the costs of administration.

Appendix References

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Standard on Contracting for Assessment Services

Standard on Digital Cadastral Maps and Parcel Identifiers

Standard on Manual Cadastral Maps and Parcel Identifiers

Standard on Mass Appraisal of Real Property

Standard on Oversight Agency Responsibilities

Standard on Professional Development

Standard on Property Tax Policy

Standard on Public Relations

Standard on Ratio Studies

Standard on Valuation of Personal Property

Standard on Valuation of Property Affected by Environmental Contamination

Standard on Verification and Adjustment of Sales

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