Wisconsin Taxpayers Alliance

Wisconsin Government in Focus

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Reassessment—a tale of three cities

When taxpayers learn of an assessment increase, they usually fear a tax hike. As this tale suggests, the fear may be unfounded.

It was assessment time in Winken, Blinken and Nod, three tiny cities of limited means. Each had only two homes, each valued at $40,000. Assessment news travelled fast, and even small increases caused concern.

Winken: Assessments Rise; Taxes Don't

In Winken, where assessments had more than doubled, the reaction of one woman was typical: "What will I do? My assessment went up 150%. They say my $40,000 house is now worth $100,000. I can't afford a 150% tax increase!"

"Balderdash," bellowed a deep voice. "Your taxes won't change a dime." A small, stout gnome appeared from behind a stump. He began to draw as he explained:

"Winken only has two houses, each assessed at $40,000. The city's total assessed value is $80,000.

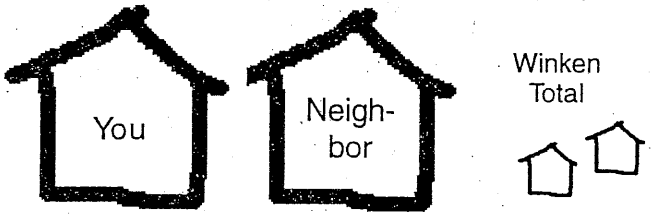
Asmnt.	$40,000	+	$40,000	=	$80,000
	50%		50%		100%

"Last year, total property taxes levied—or charged—in Winken were $4,000. Your home was half ($40,000/$80,000) the city's assessed value. So you paid half the taxes, or $2,000. Your share of Winken's assessed value is your share of the total tax bill." The gnome wrote:

Taxes	$2,000	+	$2,000	=	$4,000
	50%		50%		100%

"But our assessments jumped 150%. My house and my neighbor's are now valued at $100,000. We're going to get killed when tax bills come out in December," she cried. A look of disbelief crossed the gnome's face. He hurriedly began to sketch and talk, only this time, the houses were bigger . . .

"Your house is assessed at $100,000, just like your neighbor's. Winken's total assessed value is now $200,000. Your assessment went up 150%; your neighbor's went up 150%; Winken's total rose 150%.



Asmnt.	$100,000	+	$100,000	=	$200,000
	50%		50%		100%

"Your home is *still* half ($100,000/$200,000) of the city's assessed value. You're *still* going to pay half the taxes. The tax levy, the property taxes to be collected, isn't changing; so you'll *still* pay $2,000—or half of $4,000." He scribbled on his blackboard:

Taxes	$2,000	+	$2,000	=	$4,000
	50%		50%		100%

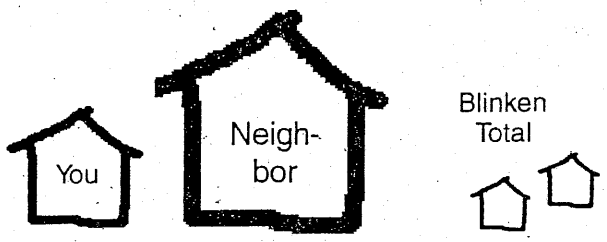
The Winken woman looked relieved. "You mean my taxes will stay the same, even though my assessment rose 150%?" "That's right," said the gnome. "The only way your property taxes will rise is if local governments increase their budgets and seek to collect more taxes through their levies."

Blinken: Assessments Rise; Taxes Rise and Fall

The Winken woman's uncle was visiting from sister-city Blinken. Things were much the same there: two homes each valued at $40,000, each responsible for $2,000, or half the $4,000 in total property taxes.

When the gnome asked what had happened to assessments in Blinken, the uncle told him his valuation had doubled to $80,000, and his neighbor's $40,000 home was now assessed at $120,000. "My taxes are going to jump for sure," the uncle exclaimed. The gnome began to talk:

"Like Winken, Blinken's total assessed value grew from $80,000 to $200,000, a 150% increase. Your assessment doubled to $80,000, and your neighbor's tripled to $120,000.



Asmnt.	$80,000	+	$120,000	=	$200,000
	40%		60%		100%

"But now your house is only 40% of the total assessed value—$80,000/$200,000 is 40%. So, your share of Blinken's total value has dropped from 50% to 40%. Your taxes will drop from 50% to 40% of the total."

Taxes	$1,600	+	$2,400	=	$4,000
	40%		60%		100%

The Blinken uncle couldn't believe it—his assessment had doubled and his taxes were falling. The gnome explained, "If the tax levy stays at $4,000, your December tax bill will be $1,600. Your assessment is 40% of Blinken's value; you pay 40% of the taxes."

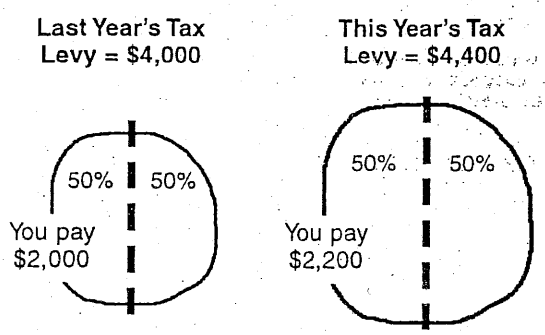
"Do my neighbor's taxes go down, too?" inquired the uncle. "Nope," said the gnome. "His home is no longer half of Blinken's assessed value; it's now 60%. So, he will have to pay 60% of the levy, or $2,400 in taxes."

Nod: Spending Affects Taxes

Cousin Naomi breathed a sigh of relief from the other room. Because there had been no assessment change in Nod, she said she was safe from a tax increase. Both homes there were worth $40,000, and a weak real estate market had left home prices flat.

The all-knowing gnome couldn't believe his ears. He quickly drew two circles and started chattering again . . .

"Your home and your neighbor's are both assessed at $40,000. No change. You each represent half of Nod's value; you each pay half the tax levy, whatever it is.



"Last year, when total taxes were $4,000, you each paid half—$2,000. This December, the tax levy is to rise 10% from $4,000 to $4,400. You'll still pay half—half of $4,400, or $2,200."

Cousin Naomi from Nod looked confused. So, the gnome continued: "Assessments don't affect how much is going to be *taxed*; budgets determine that. Assessments only affect how the tax bill is *divided* among the property owners, once the tax levy is set."

The Moral of the Story

When assessments rise, tax rates usually drop. But taxpayers don't need to understand tax rate math to know that when assessments change, they should compare their percent rate of increase with the average community increase.

If the change is greater than the average, a tax increase is possible; the owner's property now represents a larger share of total valuation. If the change is the same or less than the average, a tax increase is possible when the total property tax levy is increased. A smaller-than-average assessment increase could even mean a tax cut!

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