

# Focus

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## In brief

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

## Capitol notes

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

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

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

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

## The most confusing tax issue of all

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

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

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

### Value share, tax share

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

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

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

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

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

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

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

*D:* Yes, Clarie, but . . .

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

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

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

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

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

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

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

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

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

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

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

### Budget up, taxes up

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

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

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

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

### Different shares . . . and taxes

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

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

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

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

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

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

D: But what about your taxes?

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

### Values down, taxes down?

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

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

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

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

### Rule of thumb

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

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

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