

# Understanding Property Taxes

12a

Property Tax Fact Sheet 12a

Fact Sheet

This fact sheet is the first in a series of three fact sheets that were designed to assist taxpayers in the understanding of the basic concepts of their annual assessment and property tax administration. Please see Fact Sheets 12b and 12c for additional information.

## Why do we have property taxes?

The money raised by property taxes is a major source of funding for school districts, cities and townships, counties, and special taxing districts. Local property taxes help fund many programs and services including public schools, fire stations, police protection, streets, libraries, and more.

Certain types of properties – including seasonal/cabin, commercial/industrial, and un-mined iron ore – are also subject to a state-level property tax. Receipts from this “state general tax” go into the general fund.

A key benefit of the property tax system is that the revenue it raises tends to remain stable. Compared with sales or income taxes, the property tax is less susceptible to recessions or other changes in income or spending trends. In addition, since local jurisdictions only levy what they need to cover their annual needs, there is no surplus or deficit.

## What affects my property tax bill?

Government spending and revenues will affect your tax bill the most. If spending increases or revenues from other sources such as state aid decrease, your property taxes may increase. Conversely, if spending decreases or revenue from other sources increases, you may see a decrease in your property tax bill.

Since property taxes are levy-based, it is possible to have your property tax increase while your market value decreases and vice versa.

Your share of the overall property tax levy is determined by the market value and classification of your property. The estimated market value and classification of your home are determined by the

assessor as of January 2 of each year. Assessors estimate the value of your property using historical sales of similar properties.

There is no direct relationship between estimated market value and property tax liability. Instead, your property’s taxable market value is used to determine how much property tax is due. These two values may differ for a number of reasons, including tax deferral programs, homestead and other value exclusions, or reductions for specific types of property.

The classification of your property is based on its use on January 2. Each class of property (residential, apartment, cabin, farm, commercial, etc.) has a different classification rate. These rates are set by the Legislature and calibrated so that some property types pay a greater share of the property tax than others. For example, commercial properties pay more than residential homesteads and agricultural properties.

## How are my taxes determined?

First, each local jurisdiction will determine the revenue needed from property taxes. This amount – the **levy** – is calculated by subtracting all non-property tax revenue from the total proposed budget.

<p>Total Proposed Local Budget            - All non-property tax revenue (state aid, fees, etc.)            = Property tax revenue needed (levy)</p>
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The levy is then spread among all taxable properties according to their net **tax capacity**. A property’s **tax capacity** is calculated by multiplying the taxable market value by the state-mandated classification rate.

<p>(Taxable Market Value) x (Class Rate) = Tax Capacity</p>
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The final step is to calculate the **local property tax rate** by dividing the property tax revenue needed in a jurisdiction by its total tax capacity.

$\text{Local Tax Rate} = \frac{\text{(Property tax revenue needed)}}{\text{(Total Tax Capacity)}}$
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The county auditor will also calculate and apply any credits, referendum levies, and the state general tax (for certain types of property).

Combining the above calculations, the **basic formula** to determine an individual property's tax amount is:

$\begin{aligned} & \text{Taxable Market Value} \\ & \times \text{Class Rate} \\ & = \text{Tax Capacity} \\ & \times \text{Local Tax Rate} \\ & = \text{Base Tax} \\ & - \text{Credits} \\ & + \text{Referendum Amounts} \\ & + \text{State General Tax} \\ & = \text{Total Property Tax Payable} \end{aligned}$
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### What is a "Truth in Taxation" notice?

Every year, after November 10, but before November 25, all property owners receive a "Truth-in-Taxation" notice by mail. The notice contains:

- valuation and classification information on your property for the current and previous assessment years;
- your current-year property tax amounts; and
- an estimate of how your taxes may change based on your taxing district and local budget decisions for the following year.

The Truth-in-Taxation notices are required to show dates, times, and places for the scheduled meetings in which the budget and levy will be discussed and finalized. These meetings must occur after November 24. The public must be allowed to speak at these meetings for the city, county, and school district and they must not be held prior to 6 p.m.

These meetings are held to give taxpayers an opportunity to voice their concerns over the jurisdiction's proposed budget. They are not a forum for taxpayers to appeal their market value or their individual proposed property tax amounts.

### Property Tax Statement

The County Treasurer's Office mails a tax statement to property owners by March 31 of each year. The statement provides an itemized list of the property tax due to each taxing authority. The dollar amounts must be listed separately for the state general tax (if applicable), county, municipality or township, voter-approved school tax, other local school tax, and other special taxing districts. The statement must also include any tax on contamination value and any other special assessments on the property.

Real property taxes are due in equal installments on May 15 and October 15 of each year (unless the amount is \$50 or less [\$250 or less starting with taxes payable in 2010] in which case taxes are due in full on May 15). If a property is classified as agricultural property, the 2<sup>nd</sup> half is not due until November 15.

### Conclusion

In conclusion, it is essential that taxpayers understand that there is no direct relationship between estimated market value and property tax revenue. It is possible to have your property tax increase while your market value decreases and vice versa. Government spending and revenues will affect your tax bill the most.

For additional information, please refer to Fact Sheet 12b How the Assessor Estimates Your Market Value and Fact Sheet 12c Understanding Your Assessment and the Appeals Process.