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Policies and Issues of Tax Assessment Improvement

By William G. Murray

Improvement in tax assessments presents an opportunity and a challenge to extension and research personnel in our land-grant colleges and universities. Until recently there was little chance to get a program started; now the field is wide open.

Several reasons account for the slow development in this area. Most agricultural economic specialists have shied away from tax assessments because they found the problems were not strictly agricultural but urban as well. It is practically impossible to isolate the agricultural aspects of the property tax. For example, the equity of farm property assessments depends on the level of urban and other nonfarm assessments in the same district.

Another reason for slow progress is the peculiar nature of the property assessment problem. To make a successful attack on the problem, it is my judgment that a combined research and extension program is desirable, and both phases should be carried on by the same individual if possible. The best way to get research started on assessment is to get the interest and confidence of assessors, state tax commission officials, and other officials by assisting in an educational program such as state or district schools or clinics for assessors.

A final reason for the tardy development of a program has been the lack of interest shown by the public. As long as John Citizen would tolerate archaic, inefficient, inequitable assessments nothing much could be accomplished. But now that the property owner is groaning under the heavy load of school levies, and state legislatures are hard pressed to get uniform assessment among counties throughout the state so they can base grants-in-aid on property values, John Citizen is becoming alarmed about the assessment situation and is ready and willing to consider suggestions for improvement.

The big issue in property assessment is equalization—how to obtain uniform assessments locally and between districts and counties. The problem divides neatly into the local inequalities that need to be corrected within the assessor's own district or county and the inequalities between counties that need to be corrected by state tax authorities with or without the aid of the local assessors.

There is one other issue of importance which should be mentioned — this is the dispute over the assessment level. Most states

require by law assessment at full market value or some percentage of this figure. However, most states are far below this level, anywhere from three-fourths to as low as one-fourth of the required amount. This is a real problem but for our purposes not as important as equalization.

An illustration of the equalization problem may help in visualizing its complexity. The following assumed figures provide an approximate, although simplified, picture of what exists in many areas:

LOCAL EQUALIZATION

County X	Market Value	Before Equalization		After Equalization	
		Assessment	Ratio	Assessment	Ratio
Farm A	\$20,000	\$8,000	40	\$10,000	50
Farm B	10,000	6,000	60	5,000	50
All farms			50		50
Residence A	8,000	4,000	50	4,000	50
Residence B	16,000	4,800	30	8,000	50
All residences			40		50
All farms and residences			45		50

STATE-WIDE EQUALIZATION

County X	Average Ratio Before Equalization	Average Ratio After Equalization
All farms	50	50
All residences	40	50
All farms and residences	45	50
County Y		
All farms	35	50
All residences	25	50
All farms and residences	30	50

The illustration above may seem relatively simple since all that is required is raising up to 50 percent all assessments that are below this level. (We are assuming that the state law in this case requires assessment at 50 percent of full market value.) But one of the big stumbling blocks is that state-wide equalization is proceeding in many cases ahead of local equalization.

Let us take a look at what happens when the state changes all assessments in a county. If the state should raise all the residential assessments in County X by 25 percent to bring them up even with farms, the effect on Residence A would be an increase of \$1,000 and on Residence B \$1,200. Residences on the average would be brought into line with farms, but the inequality between residences would persist. And the result would also be unsatisfactory if all property in

County X were raised 10 percent because in this case farms would be raised above the average, and residences would not be raised enough.

The state, however, is impatient to equalize because the average assessment in County X is 45 and in County Y only 30. If each county's property is the basis for state aid to schools, with each county levying a minimum millage to qualify, then it is evident that County X is taxing property of the same value 50 percent more than County Y in order to qualify.

To meet this situation some states like Illinois, New Jersey, Pennsylvania, and Wisconsin are making their own state estimates of taxable property value in each district and distributing the aid on this basis. Although this provides for intercounty equalization, it still does not touch the fundamental error of local inequality. A much more desirable goal to achieve is local equality, which, if accomplished on the state-wide level set as the standard, would automatically provide state-wide equalization.

Our major goal, therefore, is local equalization. In developing a program to reach this goal, two important phases can be established. One is a clinic or educational project with the assessors, and the other is an assessment-sale ratio project designed to train and to encourage the assessors to use this important tool of measuring equality.

The clinic approach has much to commend it. It brings to the attention of the assessor the "bull's eye" on his assessment target when all the assessors assess the same property. It also reveals some embarrassingly wild assessments far from the bull's eye. An essential feature of the clinic is getting the local assessor to allow the use of his assessment for comparison with the group averages — group averages being generally preferred to just one average for all assessors.

In Iowa we conducted our first clinic in 1951. This year we conducted our second clinic at the request of the assessors. One of the best means of showing you the results of this clinic is to reproduce an editorial from the September 30, 1955, *Des Moines Register*.

SOME GUESSING NECESSARY ON TAX VALUES

The impossibility of exact agreement, even by experts, on the correct tax valuation of real estate was shown in the test made last week by members of the Iowa State Association of Assessors.

Six groups determined what they thought should be the assessed valuations on four properties in Warren County. The groups consisted of about 20 men apiece—all city and county assessors or deputies.

One group put a tax value of \$6,200 on a supermarket. Another group set the value at \$8,200. That was the greatest difference of opinion about value. The difference between high and low on a home built in 1875 was

\$550. It was \$600 on a home built in 1950 and it was \$1,770 on a quarter section farm. The actual assessed value, as determined by the Warren County assessor, was higher than the average on the 1950 home but lower on three other properties.

These variations can be interpreted statistically to make it appear that there are great injustices and unfairness in valuation. For example, the valuation set by one group of assessors on the supermarket was nearly 50 per cent more than the valuation of the Warren County assessor. On a taxes paid basis on these properties, the amounts involved are small. If the property tax were 80 mills, for example, the difference between high and low valuations on the supermarket would be only around \$16 a year in taxes.

Following are the valuation figures on the various properties, the first three figures being the high, low and average of estimates made by the groups of assessors. The last figure is the one set previously by the Warren County assessor.

	High	Low	Average	Actual Assessment
Supermarket	\$8,200	\$6,200	\$7,500	\$5,530
1875 Home	3,100	2,550	2,750	2,624
1950 Home	5,500	4,400	4,900	5,556
160-Acre Farm	9,720	7,950	9,000	8,603

Actually the surprising fact about this test is that the assessors came as near agreement as they did. The reason that honest, competent men cannot independently come up with the same valuation figures is that the standards for determining tax values are not—and cannot be—rigid and precise.

Assessed valuation, under Iowa law is 60 per cent of actual value. (In practice it's only 30 per cent or so of actual value.) The three factors which Iowa law says the assessor must take into consideration in determining the value of properties are: (1) the income of the property, past, present and prospective; (2) the current market value; and (3) "all other matters" that affect the actual value of the property.

The biggest factor of all in determining valuation is the *judgment* of the assessor. The Iowa law gives ample leeway for the assessor exercising his judgment and common sense through the provision that he take into account "all other matters" in determining the value of properties. The assessor's judgment also is involved in determining such things as the prospective income of a property and its current market value.

One of the best guarantees which Iowans have of fairness in determining tax valuations is in the 1947 assessors law which did away with the popular selection of assessors. Iowa law now provides for their appointment on a basis of qualifications.

Assessors still need all the help they can get in trying to get uniformity and equality in assessing properties. The state tax commission recently set up a new division for this purpose. But the judgment of the individual doing the assessing will continue to be a big factor in determining valuations. Rough equality in fixing valuations may be obtained but perfect equality isn't possible. With the property tax, you can't escape some "guessing" about valuations.

One of the interesting aspects of this 1955 clinic was the attitude taken toward it by the assessors. In 1951 we were an outside agency

putting on the clinic. This year it was a mutual project and we were considered as part of the assessor group.

In the second phase, assessment-sale ratios, a number of the more energetic and far-sighted assessors are willing to carry on a continuing assessment-sale ratio program in their districts if they can obtain a little assistance in getting such a program started. We find that when an assessor gets his own ratio study under way, he becomes interested in tackling his inequality program.

In addition to clinics and assessment-sale ratio studies, there are many other needed features such as improved legal organization, soil classification, bench mark appraisals, and the like. To provide an over-all view of the various improvements that should be sought in tax assessments, the following list is one that merits consideration for your area. This list was prepared by a subcommittee of the North Central Land Tenure Research Committee after a study of the property assessment situation in the thirteen Midwest states. How many of these improvements would be desirable in your state?

SUGGESTIONS FOR IMPROVEMENT

I. County unit in place of township.

The township in most cases is too small to support an assessor who has the ability to do a skilled job of assessing.

II. County assessor in place of township assessor.

A full-time county assessor can employ competent help to do the field assessing under his supervision and thereby achieve local uniformity throughout the county.

III. High qualification for the county assessor.

A. *Skill.* Since local inequalities are the major defect in the assessment system, the first step in correcting this defect is a skilled assessor. This means that to be eligible for the assessor position, an individual should have certain qualifications, the most important being appraisal skill and administrative ability.

B. *Examination.* Some test or examination can be required to determine which individuals have the desired qualifications. At present both Iowa and Kentucky have examinations to determine eligibility.

C. *Salary.* Unless a salary is paid in line with the qualifications, the assessor position will not attract the type of individual wanted.

D. *Appointment.* An appointed assessor may be able to come closer to providing the impartial assessment service desired than an elected assessor. The results of assessment where assessors are appointed should be studied closely.

IV. Reassessment or reappraisal program.

Most counties if they have not been reappraised by competent appraisers in recent years need to be reappraised. This should not be done, however, until a skilled assessor has been appointed or elected. This county assessor can then advise the proper county officials on a recommended plan which may involve state assistance, an outside firm, or a reappraisal made under his own supervision. The county assessor should be in on the reappraisal from start to finish in any case because his task will be to keep it up to date after it has been made.

V. Real estate appraisal practices.

A. *Maps.* A system of maps, plats and aerial surveys is an essential unit in a good assessment office.

B. *Soils and cost data.* Soil and yield data for land and cost data for buildings are standard tools in modern appraisal.

C. *Bench mark appraisals.* An excellent way to build a good system of assessments is to make a detailed appraisal of several key or bench mark properties. Other properties can then be compared with these key units. The bench mark units should be located in different parts of the county and represent typical units in these subareas.

D. *Card system.* Good assessment requires a system of recording data on building dimensions, building characteristics and value calculations; and on land quality and land value calculations for each tract assessed. This information on each unit provides the assessor and the individual taxpayer with the basic data which indicate the impartiality of the assessment.

E. *Assessment-sale ratios.* The county assessor is in an excellent position to use the assessment-sale ratio. He can check the sales to determine if they are bona fide and he can use the ratio results to measure the uniformity he is achieving. With a little assistance from the state tax commission the county assessor can do most of the work himself. In some cities and counties assessors are carrying on their own assessment-sale ratio studies. Actually the pro-

cedure is a natural one for the assessor since he gets the name of the purchaser to change his ownership record.

- F. *Border checks.* An efficient method of inter-county equalizing is border checking. In doing this the assessors concerned drive along their common boundaries comparing the assessments on either side of the line.
- G. *Advisory committees.* The assessor can use to advantage a citizens advisory committee to explain his methods and to get public reactions.

VI. Personal property revisions.

- A. *Exemptions.* A wide diversity in exemption practice in the different states justifies a special study of this problem.
- B. *Household property.* Difficulty of getting this property listed and valued equitably suggests a limitation to a relatively few large items of the luxury or semi-luxury class such as television sets or the complete elimination of household property.
- C. *Business property.* Use of an average inventory appears to be more equitable than the one date assessment.

VII. Between-county equalization.

- A. *Assessment-sale ratios.* These have proven to be the best basis for an equalization of real estate assessments. Successful inter-county equalization requires good equalization within the county first. Eventual equalization of all property groups is attainable.
- B. *Personal property.* More techniques are needed as a basis of comparing one county with another.

VIII. Educational activities.

- A. *Assessors.* Schools and assessor clinics should be encouraged as a means of professional training, picking up ideas and comparing notes with other assessors. Regional group meetings are excellent means of in-service training and communication. State colleges and universities should be invited to participate in educational activities jointly with state assessor association, National Association of Assessing Officers, and state tax commission.

B. *Public.* Assessors should have a continuing program of acquainting citizens with their assessment system. This can also include sessions in the schools to inform young people of the functioning of the assessment process and other phases of the property tax.

IX. Research.

Assessors and state tax commissions can benefit from more research on assessment and related phases of the property tax. In addition to the colleges and universities that are interested in cooperating on research programs, there are various foundations and groups such as the National Association of Assessing Officers, American Institute of Real Estate Appraisers, American Society of Farm Managers and Rural Appraisers, National Tax Association, and Federation of Tax Administrators.

PART II

*Water Problems
and Policies*

