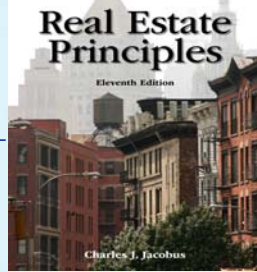


Chapter 15

Taxes and Assessments



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Property Taxes

- › source of income for local government
- › ad valorem taxes = according to value
- › appraisal & assessment
- › tax district appraises all taxable property
- › tax rate calculation



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How Does the Government Compute the Tax Rate?

- › Various agencies submit budgets
Agency 1 = \$2,500,000, Agency 2 = \$5,000,000 TOTAL = \$7,500,000
- › Assessor determines assessment roll
Total assessed value of all property in district = \$500,000,000
- › Divide Budgets by Assessment Roll
 $\$7,500,000 / \$500,000,000 = 0.015$ (budget is 1.5 percent of tax roll)
- › Tax Rate
Rate may be expressed as: 15 MILLS, \$1.50 per hundred, \$15 per thousand

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Expressing Property Tax Rates

	Mill Rate	Dollars per Hundred	Dollars per Thousand
School district	40 mills	\$4.00	\$40.00
City	30	3.00	30.00
County	10	1.00	10.00
Total	80 mills	\$8.00	\$80.00

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Calculations using Mills

Move decimal:

- 5 mills = .005
- 85 mills = .085
- 215 mills = .215

- Tax appraised value (Assessed value)
- x (times)
- Millage rate
(e.g., 80 mills:
see previous slide)

Result: Tax Bill

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Other Taxing Matters

- ▶ Unpaid property taxes
 - ▶ Lien on Real Property
 - ▶ Tax Sale
 - Certificate
 - Deed
 - ▶ Redemption

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Other Taxing Matters

- ▶ **Assessment appeal**
 - ▶ Appeal deals only with amount of assessment not with tax rate or amount of tax
 - ▶ Appeal board to review the assessment of like properties

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Other Taxing Matters (cont 2)

- Property tax exemption**
 - ▶ Exempt:
 - Government Property
 - Charitable Property
 - Homestead exemptions
 - Exemption as incentives

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Other Taxing Matters (cont 3)

- Property tax variations**
 - ▶ Differences in assessment
 - ▶ Times of high appreciation assessor may be behind
 - ▶ Differences between cities may be result of differing services

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Other Taxing Matters (cont 4)

- ▶ **Special assessments**
 - ▶ To pay for construction of improvements benefiting particular area
 - ▶ "Special Improvement District"
 - ▶ Bond issues if owner doesn't pay total amount
 - ▶ Apportioned on a "front-foot" basis or per lot
 - ▶ Like property tax, a lien on the real estate

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Sample

Reference List of all Individual Taxing Subdivisions & Tax Rates for Tax Year 2009						(reflist opt)	
Code	COUNTY	Subdivision Type	Taxing Subdivision Name	NEBR Prop. Assmnt. Div. Coding BaseSch UnifRich AI Class or PEX Code or First Code	2009 Taxable Value	2009 Taxes Levied	2009 TAX RATE
55	LANCASTER	COUNTY	COUNTY LANCASTER		18,640,558.827	52,011,451.56	0.27902800
55	LANCASTER	CITY OR VILLAGE	BENNET	400	37,929,044	202,402.27	0.53363400
55	LANCASTER	CITY OR VILLAGE	DAVEY	400	7,684,335	16,160.42	0.21025800
55	LANCASTER	CITY OR VILLAGE	BENTON	400	9,588,655	24,244.36	0.25282200
55	LANCASTER	CITY OR VILLAGE	FIRTH	400	25,317,524	58,589.75	0.23139200
55	LANCASTER	CITY OR VILLAGE	HALLAM	400	14,353,510	96,262.47	0.67074800
55	LANCASTER	CITY OR VILLAGE	HICKMAN	402	84,095,730	580,772.57	0.69042600
55	LANCASTER	CITY OR VILLAGE	UNION	403	15,746,855.972	48,380,959.07	0.30724500

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Sample (2)

55	LANCASTER	SCHOOL CLAS 1-5	UNION 1	55-0001	4	16,170,978,045	167,307,880.95	1.03462800
55	LANCASTER	SCHOOL BOND	UNION 1 1999 BOND 4FL 9-12	55-0001	0	15,481,188,207	6,400,056.18	0.04147500
55	LANCASTER	SCHOOL BOND	UNION 1 BOND	55-0001	0	14,676,074,628	4,875,882.27	0.03322800
55	LANCASTER	SCHOOL BOND	UNION 1 BOND 2006	55-0001	0	15,980,234,527	16,174,860.70	0.10170000
55	LANCASTER	SCHOOL BOND	UNION 1 ELEM 22FL 7 BOND	55-0001	0	16,170,978,045	6,000,937.66	0.04256600

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Federal Income Tax Capital Gain

► **Basis** is the price originally paid for the home plus any fees paid for closing and improvements.

► To calculate the **gain** you must take the sale price and subtract the selling expenses; then subtract the basis to determine the gain.



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Capital Gains Tax Rate

- 15 percent
- If property held longer than 1 year



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Calculation of Gain (example)

Purchase price \$90,000; closing costs are \$500
Add landscaping and fencing for \$3,500
Add bedroom and bathroom for \$15,000

Basis \$ 90,500
Basis \$ 94,000
Basis \$109,000

Sell home for \$125,000; sales commissions and closing costs are \$8,000

Amount realized \$117,000
Less basis -\$109,000
Equals gain \$ 8,000

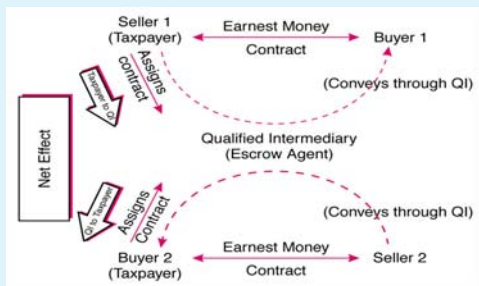
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Capital Gains

- Philosophy:
 - Reduction in Capital Gain Tax Rates shown to trigger more sales, resulting in additional income taxes from affiliated industries
- Rates
 - Lower income brackets 0% until Jan. 31, 2011
- Deferring the tax
 - Installment Sales
 - Like kind exchange (§1031)

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Possible Exchange Scenarios



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Income Tax Exclusion

- Sale of principal residence
- Used for 2 of the last 5 years
- Married – exclude up to \$500,000 gain
- Single – exclude up to \$250,000 gain

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Adjusted Sales Price

Selling price of old home	\$250,000
Less selling expenses	-18,000
Less fix-up costs	-7,000
Equals adjusted sales price	\$225,000

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Tax Deductions

- State & local real estate taxes
- Interest with limits
- Other deductions



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Tax Incentives of Home Ownership

- ▶ Itemized Deductions
 - Property Tax
 - Home Mortgage Interest
- ▶ Example: Single taxpayer earning \$75,000 per year will pay income tax of about \$13,500.
- ▶ Example: Same taxpayer with home (paying mortgage and property tax) will pay only about \$12,900 in federal taxes (almost 1 monthly payment)

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Conveyance Taxes & Recording Fee

- › Federally imposed, phased out
- › State, present rate \$2.25 per \$1000 of sales price or any part thereof
- › Must be paid when filing the deed
- › Certain transactions exempt
- › Recording Fee: \$5.00 per page, \$.50 per tract (approx. one lot or one quarter section)

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Key Terms

- › Ad valorem taxes
- › Adjusted sales price
- › Assessed value
- › Assessment appeal board
- › Basis
- › Documentary tax
- › Installment sale
- › Mill rate
- › Tax certificate
- › Tax lien

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