



H.B. 168

124th General Assembly
(As Introduced)

Reps. Jerse, D. Miller, Distel, Allen, Ogg, Strahorn, Jones, Lendrum, Fedor

BILL SUMMARY

- Adjusts the computation of "H.B. 920" tax reduction factors by taking into account up to five years of property value increases or decreases resulting from property tax complaint determinations.

CONTENT AND OPERATION

"H.B. 920" tax reduction factors--generally

(sec. 319.301)

The H.B. 920 tax reduction factor law (so called because the current real property tax limitation law was enacted by H.B. 920 of the 111th General Assembly (1976)) is designed to prevent appreciation in real property values from causing proportionate increases in real property taxes. Generally, the law ensures that unless new taxes have been voted, the total amount of taxes raised in one year is not greater than the total amount of taxes levied on the same property in the preceding year. The law does allow tax increases resulting from the addition of new property to the tax lists (e.g., new buildings and additions to existing buildings) or from reclassified property.

The tax limitation applies to each separate tax levy; for each levy, there are two separate tax reductions: one for residential and agricultural real property ("Class I property") and one for all other real property, consisting primarily of commercial and industrial real property and mineral rights ("Class II property"). Thus, the amount of taxes raised by each tax levy against Class I property in one year is limited to the amount raised by the levy from Class I property in the preceding year, plus the amount of taxes raised from the new Class I property added to the lists since the preceding year. A similar limitation applies to Class II property. If a parcel of property changes its classification from one class to another (e.g., farmland--Class I--being developed into a retail mall--Class II), the reclassification is treated in the same manner as a new addition to the tax lists--that

is, the amount of taxes charged against Class II property is permitted to increase to the extent of the taxes charged against the reclassified parcel.

Property that has not been added to the tax list or reclassified since the preceding year is referred to as "carryover property." Carryover property is the base upon which the tax reduction factors are computed. Since tax reduction factors are computed separately for Class I and for Class II property, there are two kinds of carryover property--Class I carryover property and Class II carryover property.

Adjusting carryover property to reflect property tax complaints

The value of carryover property used to compute tax reduction factors are the values listed for taxation for a given year. But those values are likely to change once property owners and taxing authorities file complaints with the county Board of Revision (BOR).¹ If, as a result of such complaints, the net value of carryover property is decreased below the value used to compute the tax reduction factors, the actual tax collections (net of refunds) will be lower than called for under the tax reduction factor law. In other words, net taxes against carryover property in one year will be lower than, rather than equal to, the net taxes against carryover property in the preceding year. It is also possible that complaints will result in current net taxes being higher than the preceding year's taxes (if, for example, local governments succeed in pressing the BOR for higher property values).

Current law

(sec. 319.301(I))

Under current law, the overstatement or understatement of tax reduction factors is remedied in part by adjusting tax reduction factors to account for finalized tax complaints. Once a tax complaint is finally determined (i.e., no longer appealable), it is applied to the next tax reduction computation in the following manner: If complaints resulted in a net reduction in the value of carryover property, the value of the current year's carryover property is reduced to the extent of the net reduction; this increases the amount of taxes that may be charged against all property in the same class, since the tax reduction factor is smaller than it would be without the adjustment. If complaints resulted in a net increase in the value of carryover property, the value of carryover property for the

¹ *Although most complaints are likely to be initiated by property owners seeking a reduction in taxable value, school boards and other local governments also may file complaints seeking increases in the taxable value of property they perceive to be undervalued.*

current year is increased to that extent; this decreases the amount of taxes that may be charged against all property in the same class because the tax reduction factor is greater than it would be without the adjustment.

In either case, the adjustment accounts for only one year's worth of reduction or increase for each complaint. This means that if a complaint reduced the value of a \$1 million commercial parcel to \$850,000, and the reduction applied to three separate tax years, the current year's Class II carryover property would be reduced by \$150,000--rather than by the cumulative reduction of (3 x \$150,000)--on account of the parcel's reduction. Since tax complaints may take several years to become final if they are appealed above the BOR level, the tax reduction factor may over-reduce taxes for several years (in the case of complaints yielding net valuation reductions) or under-reduce taxes for several years (in the case of complaints yielding net valuation increases). But current law adjusts for only one year's worth of reduction or increase.

The bill--adjust for up to five years of changes

(sec. 319.301(J))

The bill provides for tax reduction factors to be adjusted to more fully account for changes in carryover property values resulting from property tax complaints. Under the bill, tax reduction factors are to be adjusted to compensate for the excessive (or insufficient) tax reductions occurring while tax complaints are pending for several years. The proposed adjustment accounts for up to five years of changes in the value of carryover property resulting from tax complaints. Specifically, when reduction factors are computed each year, the value of carryover property is to be adjusted by the *cumulative* amount by which net property values were changed as a result of property tax complaints becoming final in the most recent year. If these adjustments result in a decrease in the value of carryover property, it will also result in an increase in the total amount of taxes charged, since the tax reduction factors would diminish.² In terms of the example above, the complaint regarding the commercial parcel that was reduced in value from \$1 million to \$850,000 effective for three tax years would cause the value of Class II carryover property in the current year to be decreased by \$450,000 (3 x \$150,000). Conversely, the value of carryover property is to be increased by the cumulative amount by which net property values were increased by complaints becoming final in the most recent year, consequently decreasing the taxes charged, since reduction factors would increase.

² *The decrease in carryover property is limited by the bill so that the adjusted tax reduction factor cannot become negative; i.e., it cannot cause taxes charged against carryover property to be greater in the current year than they were in the preceding year.*

The cumulative changes in value resulting from finalized tax complaints are to be accounted for only once, in the year after they are reported to the Tax Commissioner, to avoid multiple adjustments for the same complaint. County auditors must report the net changes in taxable value each year, after a complaint becomes final, on the real property abstract delivered to the Tax Commissioner. The adjustment is not to be made for a school district at the so-called "20-mill floor" or for a joint vocational school district at the 2-mill floor.

HISTORY

ACTION	DATE	JOURNAL ENTRY
Introduced	03-21-01	p. 250

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