

# Shouldering a Costly Burden

## States cut homeowners a property tax break, leaving commercial owners to fill the gap

By Linda Terrill, Esq. as published by **National Real Estate Investo**, June 2009



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Will Rogers once said: "The only difference between death and taxes is that death doesn't get worse every time Congress meets." Commercial property owners could say the same thing of state legislatures when it comes to property taxation. Willingness

In the beginning, most states provided a "uniform and equal" rate of assessment and taxation for all classes of property. Today, the vast majority of states still have the basic "uniform and equal" framework, but all have tinkered with it to shift the weight of taxation to commercial property.

Once the local tax base and budget are determined, a mill levy is set. Some states apply the mill levy against the 100% value of the property. The math is:  $100\% \text{ value} \times \text{mill levy} = \text{tax due}$ .

Other states have an intermediary level, generally referred to as the assessed value, which is a percentage of the 100% value. In those cases, the mill levy is applied to the assessed value and the computation is as follows:  $100\% \text{ value} \times \text{assessment rate} \times \text{mill levy} = \text{tax due}$ .

### Altering the equation?

Several states have adopted "classification legislation" that provides for differential assessment rates for commercial real estate versus residential. In most cases, the commercial taxpayer carries the larger load.

This disparity grows wider if the residential owner also qualifies for other preferential treatment that some states may provide to seniors, veterans or low-income property owners. Here are examples of the tax system in practice:

In Colorado, all property is assessed at 29%, except residential, which is assessed at 7.96%. In terms of tax dollars, this disparity means that for every \$1 paid by the residential owner, a commercial property owner will pay \$3.64.

To further illustrate, assume a mill levy of .075 and a commercial and residential property each valued at \$200,000. In Colorado, the property taxes for the homeowner are calculated as follows:  $\$200,000 \times 7.96\% = \$15,920 \times .075 = \$1,194$ . The commercial owner, however, pays 3.6 times as much:  $\$200,000 \times 29\% = \$58,000 \times .075 = \$4,350$ .

Arizona legislates commercial assessment rates at 22% and residential rates at 10% (see chart). Thus, for every \$1 paid by the residential property owner, a commercial property owner will pay

Tennessee commercial property owners fork over \$1.60 for every \$1 paid by a residential property owner, and in Kansas commercial owners pony up \$2.17 for every \$1 paid by residential owners. The ratio in Minnesota can be as high as 3 to 1.

The states and city included in the chart represent only a sampling of the disparity in the way the property tax load is shared between commercial and residential owners.

### Premature celebration?

The conventional wisdom is that lower valuations result in lower taxes. Many commercial owners and tax practitioners expect property values to decline this year due to a depressed economy. It's only logical that taxpayers who see a reduction in their valuation notices for 2009 expect their taxes to decrease.

Such a conclusion is premature in the states with different assessment rates for commercial and residential property, or with any other significant agricultural and/or residential tax relief programs. That's because if the tax base declines and the needs of government remain the same, a mill levy increase is inevitable and commercial property taxpayers will face paying the majority share.

A savvy commercial property owner would be well advised to take the following steps:

- Determine the tax appeal date and the rules for filing. If your property requires an appraisal, remember that the number of appeals may rise significantly, so hire an appraiser as early as possible.
- Determine whether your market area comprises a diverse mixture of property types, or is dominated by businesses that are dependent on a single industry.
- Compare the local unemployment rate with the national numbers.
- Decide whether you can manage the appeal on your own.
- Be prepared for it to take longer than you'd expect to traverse what will probably be a crowded tax appeal docket. To be forewarned is to be forearmed.

### NOT ALL PROPERTY TAXES ARE CREATED EQUAL

For every \$1 in property taxes paid by a residential owner in Colorado, a commercial owner with the same property value pays \$3.64. Here's a sample of residential/commercial ratios.

\$2.20.

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