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## Why Real Estate Assessments Matter

By: Geoff Williams

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The real estate assessment letter you filed away unopened is the driving force behind how much you pay in property taxes.



If you're suspicious that your property taxes are too high, you can check for errors by calculating the value of your property tax.

Image: CertainTeed

You might not think too hard about your real estate assessment, the dollar value the local government puts on your house and land. You should. The assessment determines how much you shell out on property taxes.

If you have a mortgage, your home lender is probably paying your property taxes out of an escrow account. Odds are you don't even know how much gets collected.

Devote an hour of your time to becoming better informed. Once you understand your real estate assessment, you'll understand your property tax bill—and, more importantly, whether you're paying the right amount.

### Homeowners and property taxes

Your local government needs every dime it can collect to pay for all of the services you expect as a resident: schools, libraries, hospitals, and so on. A healthy chunk of that revenue is raised from homeowners via property taxes. In normal times real estate values climb steadily, allowing local governments to take in a little more every year to keep up with inflation and perhaps even add a few services. Property tax bills usually come due once or twice a year.

The situation gets stickier when real estate values are in decline. If that occurs, local governments generate less revenue from property taxes, meaning the tax rate needs to go up, the money needs to come from somewhere else, or spending on services needs to go down. According to a 2009 **survey** conducted by the National Association of Counties, 62% of counties polled say declining property taxes are a major source of revenue shortfalls. Forty-two percent of counties have cut services, and 11% have raised property taxes.

### Assess your real estate assessment

No matter if property values are rising, falling, or stagnant, you need to understand how you're being taxed. Everything starts with your real estate assessment letter, which reveals what your property is judged by the local government to be worth. The letter will differ, depending where you live, but most will have a legal description of your house and separate values for the land and the structure. Add those two numbers together to get your home's assessed value.

Some local governments will appraise your home every year, others every two or more years. Tax assessors generally use one of two methods to come up with an assessment value for your home. The most common relies on looking at recent sales of comparable homes. Keep in mind that “recent” is a relative term. To come up with a real estate assessment, assessors may be looking at sales that occurred as long as 18 months prior. Alternatively, especially in the absence of recent sales data, assessors will calculate the cost to rebuild your home, and add that to the estimated worth of your land to come up with a dollar amount.

### **Break out the calculator**

How much you pay in property taxes is based on your real estate assessment. Put simply, your home’s assessed value is multiplied by the local tax rate to come up with a figure. However, it can become more complicated if there are multiple taxing authorities where you live—a city and a county, for example—or if there are special one-time assessments. Qualifying for property tax exemptions, perhaps due to age or disability, will also alter the formula. Some local governments offer online calculators on their websites, or call the tax assessor’s office for help.

If you want to run the numbers for yourself, don’t be intimidated by how your tax rate is expressed. Sometimes it’ll take the form of a percentage, say 1.5%, or perhaps a decimal, 0.015. Both equal the same thing. So the owner of a home that’s assessed at \$100,000 would owe \$1,500 a year in property taxes. Other times it’ll be expressed as an amount per \$100 or \$1,000 of home value. In the case of a 1.5% tax rate that would mean \$1.50 per \$100 or \$15 per \$1,000. Regardless, the math doesn’t change: Multiply \$100,000 by 0.015.

### **Knowledge is power—and savings**

Assessors have a lot of ground to cover. Many rely on valuation formulas that assess whole streets or neighborhoods. Most haven’t seen your house in person, so don’t wait for a knock on your door from an assessor hoping to take a look around. That’s why you need to read your real estate assessment letter carefully, look for errors, and challenge your assessment if it seems too high.

If you find a way to reduce your real estate assessment, whether by contesting it or qualifying for an exemption, the savings can add up. The median annual property tax paid in the U.S. in 2008 was \$1,897, or 0.96% of the median home value of \$197,600. Trimming just 15% off the median value would result in savings of about \$285. Of course, if your home value and local tax rate are higher, then you’re looking at even greater savings.

*This article provides general information about tax laws and consequences, but is not intended to be relied upon by readers as tax or legal advice applicable to particular transactions or circumstances. Readers should consult a tax professional for such advice, and are reminded that tax laws may vary by jurisdiction.*

Geoff Williams has written about personal finance for numerous publications including Bankrate.com, WalletPop, and Consumer Reports. He’s a columnist at FrontDoor.com, a real estate website.

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