

# 2005 Idaho Legislature

## Property Tax Interim Committee

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# Property Taxes in Idaho

- Property Taxes fund local government only
- \$1.14 billion collected in 2004
- In 2002, Idaho ranked 31<sup>st</sup> among states, in terms of percentage of income paid in property taxes, or about 10% less than the national average

# How Property Taxes are Raised

- Idaho uses two models – the Budget Model, and the Rate Model
- Budget Model is used by all local taxing districts
- The Rate Model is only used by School Districts for the Maintenance & Operations (M&O) Levy
- All other types of School District property tax levies (bond, supplemental, plant facilities, etc.) use the Budget Model

# Budget Model of Property Taxation Commercial Building - Year One

- The Swampston Mosquito Abatement District has a property tax budget of \$50,000
- The taxable value of all property in Swampston is \$50 million
- To calculate the levy rate, divide the budget (\$50,000) by the taxable value (\$50 million), which equals .001, or one-tenth of 1%
- The Anopheles Restaurant in Swampston is assessed at a value of \$100,000, multiplied by the .001 rate, means that the owner owes **\$100** in property taxes to the Mosquito Abatement District

# Budget Model of Property Taxation Commercial Building - Year Two

- State law allows the Swampston Mosquito Abatement District to increase its budget by 3%, to \$51,500
- Taxable values in Swampston increase by 20%, to \$60 million, while assessed values increase by 17%
- To calculate the levy rate, divide the budget (\$51,500) by the taxable value (\$60 million), which equals .00085833
- The assessed value of the Anopheles Restaurant increases 17%, to \$117,000, multiplied by the .00085833 rate, means that the owner owes **\$100.42** in property taxes to the Mosquito Abatement District (a 0.4% increase)

# Budget Model of Property Taxation

## Residential Building - Year One

- The Swampton Mosquito Abatement District has a property tax budget of \$50,000
- The taxable value of all property in Swampton is \$50 million
- To calculate the levy rate, divide the budget (\$50,000) by the taxable value (\$50 million), which equals .001, or one-tenth of 1%
- The Doe family home in Swampton is assessed at a value of \$100,000, which means the taxable value is \$50,000, after the 50-50 homeowner's exemption
- Multiply \$50,000 by the .001 rate, means that the owner owes \$50 in property taxes to the Mosquito Abatement District

# Budget Model of Property Taxation

## Residential Building - Year Two

- State law allows the Swampston Mosquito Abatement District to increase its budget by 3%, to \$51,500
- Taxable values in Swampston increase by 20%, to \$60 million, while assessed values increase by 17%
- To calculate the levy rate, divide the budget (\$51,500) by the taxable value (\$60 million), which equals .00085833
- The assessed value of the Doe family home increases 17%, to \$117,000, which means the taxable value is \$67,000, after the 50-50 homeowner's exemption
- Multiply \$67,000 by the .00085833 rate, means that the owner owes **\$57.51** in property taxes to the Mosquito Abatement District (a 15% increase)

# Rate Model of Property Taxation Commercial Building – Year One

- The taxable value of the Anopheles Restaurant is \$100,000
- This is multiplied by the Swampton School District's .003 Maintenance & Operations levy, which is a fixed rate, set by state law
- The owner owes **\$300** to the Swampton School District



# Rate Model of Property Taxation Commercial Building – Year Two

- The assessed value of the Anopheles Restaurant increases by 17%, to \$117,000
- This is multiplied by the Swampton School District's .003 Maintenance & Operations levy, which is a fixed rate, set by state law
- The owner owes **\$351** to the Swampton School District (a 17% increase)

# Rate Model of Property Taxation Residential Building – Year One

- The Doe family home is assessed at a value of \$100,000, which means the taxable value is \$50,000, after the 50-50 homeowner's exemption
- This is multiplied by the Swampton School District's .003 Maintenance & Operations levy, which is a fixed rate, set by state law
- The owner owes **\$150** to the Swampton School District

# Rate Model of Property Taxation Residential Building – Year Two

- The assessed value of the Does family home increases by 17%, to \$117,000, which means the taxable value is \$67,000, after the 50-50 homeowner's exemption
- This is multiplied by the Swampton School District's .003 Maintenance & Operations levy, which is a fixed rate, set by state law
- The owner owes **\$201** to the Swampton School District (a 34% increase)

# Conclusion – Part One

- Budget Model is like a balloon – if taxable property value is exempted from the tax base, the property tax bill is shifted to other property taxpayers – the local taxing district is held harmless
- Under the Rate Model (School District M&O levy), exempting taxable property from the tax base does not cause a shift to other property taxpayers – the loss of tax revenues is absorbed by the School District

# Conclusion – Part Two

- Two main reasons why residential property taxes are increasing rapidly in most taxing jurisdictions
- One is the frozen nature of the 50-50 homeowner's exemption, which causes a home's increase in taxable value to exceed the home's increase in assessed value
- The second is the Public Schools M&O levy rate, which does not decrease when property values rise rapidly, as do other, budget-driven levies