

# How to Reduce the Property Taxes on Your Home and Put \$\$\$\$ in Your Pocket

*By George Basch & Egroeg, the Property Tax Wizard*

## **Saving Money - the theory is pretty simple**

Reduce the valuation that the assessing authorities put on your property, and your taxes will be less than if you hadn't successfully appealed.

There are some additional wrinkles that have to do with possible exemptions which may be allowed in your jurisdictions (disability, widow/widower, veterans, retirees, old age deferrals, low-income etc.) All of these have special rules, and you need to check with local authorities.

## **Making it happen takes skill, time, and dedication- "the devil is in the details".**

Most people call the process by the name, "tax appeal," but you really won't be appealing your taxes.

You will be appealing your **assessment**, which is the value placed on your property, by the Assessor, for tax purposes; the value which forms the basis of your tax bill.

Valuation formulas are different in different jurisdictions. They may include one, or more of the following.

Assessor's valuation – market value, fair value

Adjusted by assessment ratio, assessment level, equalization factor

Final adjusted, equalized "assessed value", which is the value used for calculation of taxes owed.

Additional adjustments for statutory exemptions – disability, age, widow/widower, low income, etc.

Reducing this final adjusted, equalized “assessed value” will reduce your property taxes – the so called “ad-valorem” taxes – Latin for “value based” taxes.

Each state and many local political jurisdictions have different laws, rules, regulations and steps that have to be followed, quite precisely, so that a valuation appeal doesn’t fail because of some technicality, particularly not missing crucial dates.

In addition, and this is the key, you have to gather clear and convincing data, evidence and information, supported with appropriate PROOF that your property is over-valued according to local laws and regulations, or is being discriminated against because the property is over-valued when compared to “similar properties similarly situated”.

Also, pay close attention to local rules and practices. Many areas value the property at “full market value”, but some use a lower “adjustment” percentage (for everyone), which may lull you into a false sense of security. Some areas have different classifications for different uses – residential, commercial, vacant land – and these need to be correct.

Always check that the “starting point value” is no more than “fair market value”.

Once you have all your facts together you have to present it (or “sell” it) in a clear and convincing fashion. Sometimes this is written, sometimes it’s a “stand up” presentation in front of a representative of the assessor, a hearing officer or a board or panel.

## **How do you determine if you should appeal your assessed value?**

Here are the circumstances in which you may have a winning case:

### **1. If there is an error in your tax records**

There could be a clerical or mathematical error, or an error in “judgement”, such as “quality” in recording the details of your house or lot.

Sometimes if you discover an error you can obtain retroactive corrections and tax refunds.

### **2. If your home’s assessed value is too high.** If it is greater than the market value, or if your property is overvalued relative to similar houses in the neighborhood

– “similar properties similarly situated” – or if the cost to replace, less depreciation is higher than the valuation, the valuation is too high.

There is an exception to this general statement. Some states, like California, value a newly purchased home at its purchase price while allowing identical homes in the neighborhood to remain at lower values if they have not been newly purchased. Check your local laws.

**3. If you have an illegal assessment.** Check to see if your home is assessed at a higher percentage of its market value than the law allows.

**If you fit into any of these categories, you have reason to pull together a case and appeal your assessment value.**

**The protest (appeal) process differs in various locations and jurisdictions**

The first step is the same everywhere. Find out who the local “assessing authority” is (there is usually just one) and get from them the process and schedule (critical dates) for submitting an appeal.

The “appeal process” typically has several levels. If you are not satisfied with the results at one level you can go on to the next one. Be careful about dates, so that you don’t lose on a technicality. Also, in some locations if the authorities don’t act or respond to you by fixed dates, you win, so check that they do what they are supposed to do by the time(s) they are supposed to do it.

The process can include these steps or levels:

Informal meeting or conversation to correct an error or reduce the valuation.

Formal appeal to the assessor or local authority.

Formal request to a local or state board of review or equalization – there may be one, or more opportunities for such reviews of a lower decision. Pay attention here,

because some review boards have the authority to raise assessments as well as lower them.

Court.

Once you know the process and the calendar, you've got to go to work.

## **Here are the steps you should take**

**Step 1** - Call or visit the assessor's office in your county, city, town or village hall, and ask to see the record on your property.

Just exactly what is your valuation and what information does the assessor have in his / her file?

Check that your lot size and the square footage of your home are correct, and that the rest of the data is accurate. If you find a significant error, you shouldn't have trouble arranging a change in your assessment.

Does the appraisal card show that you have two bathrooms and you don't? Does it say that your roof is in good condition, although you know it isn't because you get wet when it rains? Is the acreage correct? Everybody makes mistakes. The key is what you do after you discover they have been made.

If the errors are in your favor, great!, but be careful if you have made recent improvements that you don't want to "share" with the authorities, because they might conclude that your home is worth more than they think it is.

**Step 2** - Look at homes in your neighborhood, particularly at those homes and lots substantially similar to yours and find out what their valuations are. You may find comparable properties have lower valuations. If you can back up your claims of "unfair" with hard figures, you have a good chance of winning some concession.

**Step 3** - See if you agree that your property is worth as much as the officials claim it is.

You may have had your home appraised as part of refinancing recently. If so, compare the appraisal with the assessor's valuation and see how the two compare.

Find out what "similar properties similarly situated" have sold for. You may want to consult a real estate broker or appraiser for the figures

**Step 4** – See what the valuations are of similar properties similarly situated (comparable properties). Be sure to consider such factors as age, condition, size, neighborhood and land size to make sure that the properties are really comparable.

Be sure that any differences, better or worse, like a swimming pool or a finished basement, or a leaky roof or a cracked foundation, are reflected, reasonably, in the "market value" of your home. This may require that you get estimates of the "cost to cure" any deficiencies, particularly those that would not be apparent in a casual examination of the property.

Here's an example of how the "comparable property" approach works.

Your property is valued at 90% of fair market value--\$90,000. You find three other comparable properties, which by property transfer returns or other evidence, have similar market value but a lower valuation. Here's how you calculate what your assessed value should be:

Property	Fair Market Value	Assessed Value	% of FMV
Yours	\$100,000	\$90,000	90
Comp. A.	\$100,000	\$75,000	75
Comp. B.	\$120,000	\$100,000	80
Comp. C.	\$110,000	\$92,000	84
Average	\$110,000	\$ 89,000	81

You can now demonstrate that your home should be valued at 81% of fair market value (\$81,000 in this example) based on comparable valuations of similar properties similarly situated.

**Step 5** – What is the cost of my home? or the cost to replace it (less depreciation), and how does that compare to the assessed value?

This is the most complicated step. It may not be necessary if you can develop a convincing argument based on errors, market value and the valuation of comparable properties.

Most assessors use a method called "Replacement Cost New Less Depreciation" as one way of valuing the property. This can be tricky because what they consider "cost" may be different from what you would have to pay, either higher or lower. Here is a description of the "Replacement Cost New Less Depreciation" method as published by the Arizona Department of Revenue.

"This appraisal technique is used by both fee appraisers and assessors to value property.

"This method starts with the cost to build or reproduce your property today, as if it were new, and is called "Replacement Cost New." Replacement Cost New figures are based on many factors, including the size of the home, type of construction, quality of materials, design and features in the home. The construction costs are obtained from builders, suppliers and contractors in Arizona. The land value is obtained by examining sales of vacant land that is similar to yours.

"Of course, few properties are brand new, so depreciation must be deducted for wear and tear, actions of the elements (sun, rain, snow, etc.), and physical or insect damage.

"Depreciation is based upon observation by trained appraisers, along with the age and current condition of the structure. Depreciation tables which have been developed through structure mortality studies and sales of similar types of properties are used to estimate the loss in value from the property's new condition. Further depreciation is considered for functional and economic obsolescence that the property might suffer. The total amount of depreciation is then subtracted from Replacement Cost New to obtain the current estimated value of the house and other physical improvements (fences, swimming pools, driveways, etc.)

"The land value is then added to the depreciated value of the improvements to obtain the total property value."

If your home has been recently constructed you should have a good idea of the costs. If you have purchased it from a builder you may be able to deduct the "builder's profit" and/or his marketing costs or sales commissions, depending on local assessment (cost) practices.

If you have an older home, or are not the original owner, you may have to go through an elaborate and detailed process to make your case on the "Replacement Cost New Less

Depreciation” basis, and you will have to use “depreciation” figures that are reasonable and consistent with those used by the assessing authorities.

**Step 6** – Put this all together into a concise, convincing, well documented, well presented argument.

You should have good documentation of the facts that you present, with copies for the authorities, and you should be able to make a good presentation of those facts to a representative of the assessor, a hearing officer or a board of review.

### **Arguments that don't work in an appeal**

Here are some arguments that others have tried that simply don't work. Avoid them.

#### **1. My taxes are too high.**

So what? The amount of tax that you are paying says nothing about the “valuation”, and that’s all that you can appeal. There just isn't any point in complaining about taxes. The subject is valuation; if it's correct, whatever you pay is what you owe. If it isn't correct, then there's an injustice that should be set right.

#### **2. The assessor doesn't like me.**

Don't attack personalities, attack their work. Prove that they have made mistakes or appraised your property unfairly in comparison to similar properties similarly situated. You'll get nowhere blaming others for your situation. You need to concentrate on the facts that will show how your valuation is wrong, not on those who may have made the mistake. In fact, remaining on good terms with the assessor might be an advantage to you in future years.

#### **3. The property tax is unconstitutional.**

Local officials won't wade into these waters. They want numbers, comparisons, and good arguments. They won't consider constitutional arguments, and you'll sound like a crank and lose credibility (and your appeal) if you use them.

#### **4. The property tax system (or its implementation) is “unfair”.**

A general argument like this won't work. You have to have specifics. It will work if you can show that the valuation of similar properties similarly situated is lower than yours. An unsupported statement of “it's not fair” isn't going to work, and this (emotional) argument puts you right back into the “crank” category and the authorities may turn a deaf ear to your legitimate arguments if you start out attacking “their” system or “their” implementation of the system. You need to bring your property into the equation and show how your own property is overvalued compared to similar properties similarly situated.

#### **5. If my property is worth what the authorities say, would they purchase it for that amount?**

Everybody believes that this is a legitimate question, but it hasn't worked for others, and if you try to use it you'll probably hear groans from around the table. An Arizona assessor once proposed, tongue in cheek, that the taxpayer's “opinion of value” should be a binding offer to sell the home at that price. You need evidence to make a good case.

### **What will Work?**

#### **1. A mistake has been made on my property description.**

The record says you have three bedrooms and two full baths, but you have only two bedrooms and one and a half baths. The record says your roof is in excellent condition, but you can show the board that it leaks like a sieve. The record doesn't mention your cracked foundation, the structural flaws in your garage, the moisture problem in your walls.

**The great advantage you have is your intimate knowledge of your house. You need to show, by photographs, repair estimates and other facts the valuation is wrong.**

**2. My property is valued at fair market value while other, comparable, properties are valued for less than fair market value.**

First you need to find comparable properties. Start with what you know. Think of other examples of properties that were built about the same time as yours, or are similar in type, number of rooms, acreage, and the like. Read and get copies of the cards on those properties and compare them with your own. Using property transfer records or some other method, figure out the fair market value of your property and that of the comparables, and compare the fair market value to the assessed value. Then demand that your property be appraised at the same percent of fair market value as your comparables.

**3. The cost of replacing my home, less depreciation, would be less than its valuation.**

Many local authorities use a formal cost system to estimate how much it would cost to rebuild. You need to produce cost estimates from contractors, bills from people you know who have recently built new homes, or anything else you can think of to show that these cost figures are too high, and then compare these figures to your assessed value.

You also need to deduct depreciation, and add in the value of the land.

### **The Appeal Meeting or Hearing**

You will have a meeting with the assessor's representative or a hearing in front of a board.

You need to be ready with your exhibits and other evidence.

You need to have your arguments organized for presentation in the clearest possible form.

A little practice in explaining your case to friends and associates is time well spent in preparation for the hearing. If you can't convince your friends and family, you will have a tough time convincing the assessor or the board.

If you have the opportunity, observe the board in action in other cases before yours is taken up.

From this you can learn what works with this board, which members are likely to be the sharpest, which ones have the toughest standards.

Expect to have about ten to fifteen minutes to make your case. You may be sworn in before you begin testifying. Expect that a tape recorder will be running, catching your every word. Expect tough questions from board members.

Make enough copies of all factual exhibits, documentation and calculations (except for any big charts and display materials, or photos) so that everyone can have their own copies. A one-page summary outlining and underscoring the points you'll make orally is a good idea.

Include the valuation that you are requesting, and the reasons why. "my home cost \$x to build, and you have it valued at \$y", "properties similar to mine have sold for \$y", and "similar properties similarly situated are valued at \$y and mine is valued at \$x".

Remain polite but insistent that your position is correct. An irritated board is not likely to grant you any relief.

Following your case, thank the board for the time it spent on your case.

### **Is this something you can do yourself?**

This sounds like a lot of work, and it is. Some of it is pretty straightforward, and some of it is somewhat complicated. It is certainly something you can do yourself, if you're willing to devote the time and energy to the process. You need to understand the rules and the process, and be careful and diligent and smart in your work.

You may need to get some help for some of the work, or you may wish to hire someone to do it all. If you hire someone, be prepared to spend some time with them to explain all the aspects of your property, particularly those that are not immediately obvious (such as any structural or physical problems, out dated heating or plumbing systems, heavy traffic, those bratty noisy kids that cut through your backyard when you're trying to snooze, periodic flooding problems etc.)

There are competent property tax professionals who can help you. Working with a professional has to make economic sense for you and for the professional. Generally the higher the value of the property, or the more complicated, it's smart to look for professional help. Make sure they have experience in your local area.

Good luck for a successful appeal of your valuation, and in reducing your property taxes.

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