

T-N-T and the Dynamite Question

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Introduction

It happens like clockwork. Within 24 hours of mailing *Your Proposed Property Tax for 2006* notices, the telephone starts ringing and farm taxpayers are lining up at the counter with all of their notices in hand. On each notice, they have circled the percentage increase of next year's proposed taxes over the current year's taxes payable. They have probably calculated the percentage increase in *taxable market value* (TMV) for the same periods to show that the taxes on one particular parcel were increasing at a much faster rate than their property value. They might have even calculated the percentage increase or decrease in a similar manner for each of the responsible jurisdictions to see which government entity is the most to blame for this blatant error. And to really bring home the point, they might have calculated what percentage of the taxes that they pay goes to each jurisdiction. Although there are some variations, the standard question is: **"Why are the proposed taxes that I will be paying next year on this one particular farm parcel going up so much more than the taxes on the other farms that I own?" "I believe in paying my fair share in taxes and the other farms that I own appear to be reasonable, but this one can't be right."**

First Response

An accurate and time-efficient response to the question would be **"This is a common example of bracket creep. Next, please!"** Obviously, this is not a suitable answer coming from anyone working in government or a service industry. This question begs for and deserves a thorough answer because it is often a difficult concept to understand. As obvious as the answer is to us in the assessment field, anyone else without a daily exposure to ad valorem taxation, has no concept of how property taxes are calculated. They might

believe that it is a matter of multiplying a couple of numbers together, like *estimated market value* (EMV) and mill rate, to get the taxes that they will be paying on a parcel. If they have some background knowledge, they might know that there is a limit to the amount of value which receives the homestead benefit for certain classes of property or that there is a homestead credit for residential and agricultural properties that they or a relative live on. Class rates, tax rates for the jurisdictions, and homestead percentage rates are usually not known. Calculating tax capacities, gross tax amounts, and especially residential and agricultural homestead credit amounts are not in their mathematical repertoire.

An Explanation

Although I have a handout or mail-out demonstration worksheet with much of the same information, my response to their question would go something like this:

The short answer is "bracket creep." It is most likely that the \$600,000 breakpoint where the homestead class rate ends and the non-homestead class rate begins on the agricultural land and outbuildings that you own falls at a different point on the sequenced *taxable market values* (TMVs) in 2005 payable in 2006 than the TMVs in 2004 payable in 2005.

The homestead class rate for the first \$500,000 in value for the house, garage, and one acre (HGA) is 1.0%, while the non-homestead class rate for the value of the HGA over \$500,000 is 1.25%. Similarly, the homestead class rate for the first \$600,000 in value for the outbuildings and remaining land (OBL) is 0.55%, while the non-homestead class rate for the value of the OBL over \$600,000 is 1.0%. To complicate matters a bit more, there is also a residential homestead credit

calculated at the rate of 0.40% up to a maximum amount of \$304 on the first \$76,000 of HGA/TMV, but reduced at the rate of 0.090% of the HGA/TMV over \$76,000 to the point where the credit zeros out at \$337,800 TMV. There is also an agricultural homestead credit calculated at the rate of 0.30% up to a maximum of \$345 on the first \$115,000 of OBL/TMV, but reduced at the rate of 0.050% of the OBL/TMV over \$115,000 to a maximum reduction of \$115 to \$230 at \$345,000 TMV.

The *estimated market value* (EMV) of most farmland in Dodge County increased approximately 9.7% from the 2004 values to the 2005 values. The *Crop Equivalent Rating* (CER) of all soils in Dodge County was multiplied by \$3,100 for the 2004 assessment and by \$3,400 for the 2005 assessment. The one exception is that for the 2005 assessment, a floor of 50 CER (\$1,700 per acre) was placed on any soils within parcels which are potentially buildable. This valuation procedure was applied to all cover types, including cropland, pasture, woods, and wasteland. The EMVs for farm outbuildings were not increased between the 2004 and 2005 assessments.

Case Study Example

Table 1 illustrates a situation in which this “bracket creep” occurs. The HGA for both years obviously falls well below the \$500,000 breakpoint and will be taxed completely at the 1.00% homestead class rate. On the other hand, the \$600,000 breakpoint for the OBL/TMV in 2004 payable in 2005 falls only \$3,000 into Choice #4, meaning that \$3,000 of the Choice #4 value and all of the value for the outbuildings and remaining land (OBL) for the first four choices have been taxed at the 0.55% agricultural homestead class rate and everything after that has been taxed at the 1.00% agricultural non-homestead class rate. The \$600,000 breakpoint for the OBL/TMV in 2005 Payable in 2006 now falls \$21,700 into Choice #3, meaning that only \$29,700 (about 29%) of the Choice #3 value and all of the value for the OBL for the first three choices will be taxed at the 0.55% homestead class rate and everything after

that will be taxed at the 1.00% agricultural non-homestead rate.

Workout Example

As detailed as the above case study example is, there will still be some taxpayers who don't quite comprehend the scenario as described or they just want to see how it works specifically for them. If time allows, I will bring out Table 2 and populate it with their specific information. This obviously can be a time consuming process if you need to view the information in the tax or CAMA program for each year on each of the parcels that the taxpayer owns. I opted to create a query in the tax program that brings up the requested information countywide for each of the years and use that data as a Microsoft Access database. Within Microsoft Access (or any other relational database software), one or two simple queries based on the appropriate *multi-property number* (MP#), will provide you with the numbers that you need to complete the requested demonstration. These numbers can also be saved to a Microsoft Excel file and cut-and-pasted into the blank Table 2.

Conclusion

After going through all of these gyrations and contortions, the taxpayer will unquestionably walk away with some new bits of knowledge and a better understanding of why the proposed taxes on one of his farm parcels will be going up considerably more than the proposed taxes on his other parcels. Oftentimes, knowledge begets more questions. “What is the difference between *estimated market value* (EMV) and *taxable market value* (TMV)?” How is *limited market value* (LMV) calculated?” “What is the tax rate for the tax district that I live in?” Although tangential to the original question, these questions will seem like a dream to answer after going through the earlier iterations.

Editor's Note: For a copy of the demonstration worksheet in Word to hand out or Tables 1 and 2 in Excel to use, contact Wendell at the Dodge County Assessor's Office at (507)635-6245 or wendell.engelstad@co.dodge.mn.us.

Table 1

PARCEL	CLASS	HSTD	CH	ACRES	2004 TMV PAYABLE 2005				2005 TMV PAYABLE 2006				% INCREASE/DECREASE		
					HGA	OBL	TOTAL	TAX	HGA	OBL	TOTAL	TAX	HGA	OBL	TAX
09.002.1000	101	1	0	158.85	\$198,200	\$309,200	\$507,400	\$3,267.52	\$198,200	\$338,400	\$536,600	\$3,349.52	0.0%	9.4%	2.5%
09.002.4101	101	1	1	10.00		\$20,800	\$20,800	\$102.00		\$22,800	\$22,800	\$112.00		9.6%	9.8%
09.002.2100	101	1	2	94.00		\$197,700	\$197,700	\$978.18		\$217,100	\$217,100	\$1,068.18		9.8%	9.2%
09.001.3400	101	1	3	53.00		\$69,300	\$69,300	\$343.20		\$75,900	\$75,900	\$591.20		9.5%	72.3%
09.001.4401	101	1	4	18.00		\$27,000	\$27,000	\$230.00		\$29,600	\$29,600	\$264.50		9.6%	15.0%
13.036.3100	101	1	5	80.00		\$168,600	\$168,600	\$1,501.04		\$185,100	\$185,100	\$1,627.04		9.8%	8.4%
13.036.4100	101	1	6	75.80		\$163,000	\$163,000	\$1,451.50		\$179,000	\$179,000	\$1,573.50		9.8%	8.4%
TOTALS			7	489.65	\$198,200	\$955,600	\$1,153,800	\$7,873.44	\$198,200	\$1,047,900	\$1,246,100	\$8,585.94	0.0%	9.7%	9.0%

Table 2

PARCEL	CLASS	HSTD	CH	ACRES	2004 TMV PAY 2005				2005 TMV PAY 2006				% INCREASE/DECREASE		
					HGA	OBL	TOTAL	TAX	HGA	OBL	TOTAL	TAX	HGA	OBL	TAX
	101	1													
	101	1	1												
	101	1	2												
	101	1	3												
	101	1	4												
	101	1	5												
	101	1	6												
	101	1	7												
	10	1	8												
	101	1	9												
	101	1	10												
	101	1	11												
	101	1	12												
	101	1	13												
TOTALS			14												

CODES	DESCRIPTION
TMV -	taxable market value
EMV -	estimated market value
CLASS -	101 = ag, 201 = res, 233 = comm.
HSTD -	homestead (0 = no, 1 = yes)
CH -	choice (0-99 = calculation sequence)
HGA -	house, garage & 1 acre
OBL -	outbuildings & balance of land

RECENT PURCHASES
1
2
3
4

