

Part Two:

How Does the Real Property Tax Affect the Taxpayer?

Purpose and Curricular Connections

As citizens, students will pay property taxes either directly as homeowners or indirectly as renters. In this section, they will learn how taxes are calculated and how to read property tax bills:

- Students will develop an understanding of the basic concepts behind the property tax;
- Students will learn about the individuals and agencies involved in administering the property tax;
- Students learn to read and understand a tax bill.

Background information for the teacher:

The **Tax Levy** is the amount of money that a local municipality needs to operate schools and other services. This is the amount left over after subtracting money given by the state, the federal government, and other sources. Real property owners have to pay part of the tax levy. This is paid by a tax on property. It is not based on income; rather, it is determined by the value of the property you own. The local government determines the tax rate. This is calculated by dividing the total amount of money that has to be raised from the property tax by the assessed value of taxable real property in a municipality. Once this number is determined, it is then applied to each \$1000 of taxable assessed value for a property.

Day One: Should all People pay the Property Tax?

Opening Activity: Ask students: How many intend to buy a home in the future? All people who own homes will pay property tax. Do people who do not own houses pay property tax? Citizens should realize that even people who rent pay taxes indirectly, as the costs are reflected in their rent. Therefore, everyone has a stake directly or indirectly in property taxes and should understand property tax bills.

Activity: After discussing the tax bill, break the students up into groups. Each group is given a copy of a tax bill, a vocabulary word list, and a worksheet titled “What does this bill mean?” Each group will work together to answer the questions on the sheet.

Alternative methods:

- Brainstorm definitions of words with the class. Provide a sheet with just the words and have students try to determine the meaning of the words based on their prior knowledge
- Provide students with definitions to the words on slips of paper and have them determine which definition matches each word.
- Provide a newspaper article on a local or state tax issue and discuss key terms.

Questions for the lesson:

Why should citizens be informed about the property tax?

Should anyone be exempt from paying taxes? If so, who? Why?

Answer Key for Reading a Property Tax Bill

1. For what school district is this tax bill? New Paltz Central School District
2. What year is this bill for? 2001
3. What is the total amount owed by January 31? 3,108.19
4. What is the penalty if the bill is not paid? 2.0 %
5. What was the full market value of the property? \$160,000
6. What exemptions does this property owner have? STAR
7. Why is the school tax the biggest? There is a large levy for schools, which are both costly and totally reliant on the property tax for all their local revenue in most states.
8. If the taxable value increased to \$175,000, what would the new tax amount be? \$3,459.70

Reading a Property Tax Bill

Use the vocabulary below and the attached property tax bill to answer these questions:

1. For what school district is this tax bill?
2. What year is this bill for?
3. What is the total amount owed by January 31?
4. What is the penalty if the bill is not paid?
5. What was the full market value of the property?
6. What exemptions does this property owner have?
7. Why is the school tax the largest?
8. If the taxable value increased to \$175,000, what would the new tax amount be?

Real Property Tax Vocabulary

- Real property: Land and any permanent structures attached to it. Examples are houses, office buildings, vacant lands, apartments and farms.
- Real property tax: Tax based on the value of real property. This money funds school districts, city, town or village governments, police and fire protection, and other services.
- Assessment: The value of the property determined by the assessor.
- Assessor: An elected or appointed official who independently estimates the value of real property in an assessing unit.
- Assessing unit: The area in which one tax assessor works. Boundary lines follow that of municipalities such as town, city, and/or village.
- Market value: The price a property would sell for under normal conditions.
- Tax Exemptions: Specific tax breaks given to groups or individuals. Examples include religious groups and veterans.
- Property tax bill: The bill sent to individual property owners to be paid by a specific date.
- Tax levy: The amount of tax needed to be raised to pay for services such as schools in a specific municipality.
- Tax rate: A percentage that is determined by dividing the total amount of tax levy into the total value of all properties.
- School district: All properties within this geographic area pay taxes that support the schools there.

Day Two: How do Assessors Determine Property Values and Taxes?

Opening Activity: Find the most expensive property in town or a celebrity's mansion. Find out the home's value and school taxes. Ask the students how much they think the property is worth.

Activity: Teacher will explain how property taxes are determined using an example.

Alden Town tax levy = \$2 million.

Assessed value of all properties: \$40 million

From each \$1000 of property, the town must collect \$50 to get \$2 million.

\$2m/40m = 0.05. Tax rate = 0.05.

Mr. Jones, property owner in Alden, has a house valued at \$15,000.

For each \$1000, he must pay \$50. In other words, $15,000 / 1,000 = 15$. $15 \times \$50 = \750

Mr. Jones must pay \$750 this year

How did Mr. Jones's property value at \$15,000?

Mr. Jones's property is assessed by an assessor, an appointed/elected official that is in charge of establishing the value of property in a given area. The assessor is certified by New York State and continues his/her education every year.

What does the assessor's job entail?

The assessor places a value on the property, or estimates the market value, in several ways:

- Market approach: How much the property would sell for compared to other property in the area
- Cost approach: Calculates the cost of replacing the structure
- Income approach: Analyzes how much income the property could produce if rented

Discuss: Which approach is fairest? For example, property A was assessed 3 years ago and continues to pay at that rate. Property B was just sold and assessed. The value went up and the new owner has to pay the higher rate. Is this fair?

Discuss these Scenarios to check student understandings of assessment:

- 1) A store that assessed at \$300,00 burned down. What would that mean for the property tax payers in that district? (Remember the owner of the land would have to pay, but a lower amount because it is worth less. This would be a burden to others who pay more to make up for this loss.) What would happen to property values? (These might go down as people move away to seek other opportunities).
- 2) A farm worth \$1,000,000 is sold to the Girls Scouts of America, a tax exempt group. How much more will the sample tax bill go up?
- 3) IBM opens a factory worth \$100,000,000 to make computer chips in your community. The state and local governments gave IBM a 50% tax break to move in. What will happen to property values? How will local taxpayers be effected? (Property values may rise, as people move in to work there. Despite the break, taxpayers may still pay less, as IBM is paying a share of the tax burden).

Additional Ideas:

- Provide a listing of recent sales of homes in the area and compare the taxes that each house had to pay.
- Out of a list of homes with the tax amount covered up, have students choose a "dream" home, then give the tax rate and discuss reaction.

Discuss

- How are property values determined? Which is the fairest method?
- How are property taxes determined? Is this a fair method?
- If you were handed a bill for \$3000, would you be prepared to pay it? How might you prepare for it?

Homework: “You be the Assessor” worksheet.

*Note: this lesson might take 2 periods.

Answer Key for “You be the Assessor”

1. Tax rate = .033
2. Tax rate per \$1000 = 33.3
3. Mrs. Smith’s assessed property value = \$140,000
4. Determine what Mrs. Smith has to pay in property tax for 2003 = \$4662

Homework: You be the Assessor

Directions: Use the information from class and information provided to answer the questions.

1. You be the assessor:

In the Town of Alden in 2003, the TAX LEVY is \$2 million.

Total Assessed property value = \$60 million

Mrs. Smith's property = \$175,000

Percent of market value in Alden: 80%

- Determine the tax rate in Alden
- Determine the tax rate per \$1000
- Determine Mrs. Smith's assessed value
- Determine what she has to pay in property tax for 2003

2. Find your "dream home" in the real estate section. Imagine the tax levy in our town is \$3 million.

Total Assessed Property Value = \$120 million.

Give the value of your property =

Percent of market value in our town = 50%

- Determine the tax rate
- Determine the tax rate per \$1000
- Determine your assessed value
- Determine what you have to pay in property tax for 2003