

# Glossary

## **acquisition value based assessment system**

An approach that sets a property's assessed value at its market value at the time the property was acquired with either no adjustment or limited annual increases until the property is resold. This system has been used in California since enactment of Proposition 13.

## **ad valorem tax**

A tax based on the value of the item being taxed. For the most part, the property tax is an ad valorem tax. Ad valorem taxes are usually expressed as a percentage of the value.

## **appraisal**

Estimation of a property's monetary value by an appraiser.

## **abatement, property tax**

A full or partial reduction of taxes due on a property, accomplished either by reducing taxable value or directly reducing the tax bill. Reductions are usually in the form of an exemption, credit, rebate, or value freeze.

## **appraised value**

The value of a property estimated by an appraiser.

## **appraiser**

A person who estimates the value of property; most often, a professional who is an expert in valuation.

## **assessed value**

The value of a property set by a government for the purpose of taxation.

## **assessment**

(1) Discovering, listing, and valuing property, whether performed by an assessor, board of review, or court.

(2) The value placed on property by an assessor, board of review, or court. Note: Despite efforts to distinguish the two, the terms appraisal and assessment are often used interchangeably.

### **assessment freeze**

A mechanism that prevents any increase in assessed value from year to year. Same as value freeze.

### **assessment limit**

A legal limit on annual increases in assessed values so that increases in assessed values are either frozen or tied to an index or formula. Some states freeze or limit a property's assessed value until it is sold then start over with the new market value. This is known as an acquisition value based assessment system.

### **assessment ratio**

(1) The fraction of market value used to establish a property's assessed value. For example, a state may require local governments to assess residential property at 60 percent of market value. Thus, 60 percent is the assessment ratio.

(2) A measure of the level of assessment for a type of property for a particular local government, equal to the ratio of total assessed value to total market value. For example, one can compute the residential assessment ratio for a town by dividing total assessed value of residential property by total market value of that residential property. Assessment ratios can be less than, equal to, or greater than 100.

The same as **assessment tax rate** or **assessment rate** used in other states.

### **assessor**

The head of an assessing agency, an assessment administrator, or the public officer whose duty it is to make the original assessment.

### **book value**

The money figure at which an asset is carried on the regular books of account of the owner.

### **circuit breaker**

A property tax relief program that provides households with direct property tax relief that increases as household income declines, for a given property tax bill.

### **classified property tax system**

A system that applies different tax rates or assessment ratios to different classes of property. Many states with classified property tax systems apply higher tax rates or assessment ratios to commercial property than residential property.

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### **classified tax rates**

Different tax rates applied to different classes of property. Many states with classifies property tax systems apply higher tax rates or assessment ratios to commercial property than residential property.

### **community facilities districts**

Designated geographic areas established prior to the build out of a development in which the local legislative body and developers may institute a parcel tax to finance capital and in some cases operating expenditures of the new development.

### **cost approach to valuing property**

An assessment method that calculates a property's value as the replacement cost when new minus depreciation plus land value. For example, an appraiser would be likely to use the cost approach when placing a value on unique industrial property. The other two approaches to valuing property are the income approach and the sales comparison approach.

### **credit, property tax**

A direct reduction in a property tax payment. Property tax credits are allowed for taxpayers who meet certain criteria (such as renters) or for properties used for certain purposes (such as pollution control).

### **current use assessment**

An approach that assesses land based on its present use rather than its market value or highest potential use. Many states employ current use assessment to encourage the preservation of agricultural, forest, recreational, and open space land.

### **effective tax rate**

Computed by dividing tax liability by market value. A home with a \$100,000 market value and a \$2,000 property tax bill has an effective tax rate of 2 percent.

### **enterprise zones**

Designated geographic areas, usually economically depressed, within which special tax and other incentives are provided to encourage business development. For example local governments may provide property tax abatement for new businesses developing in a designated zone.

### **equalization**

A process by which a government attempts to ensure that all property under its jurisdiction is assessed at the same assessment ratio or at the ratio or ratios required by law. For example, a state may conduct equalization among school districts so that its state aid payments, which depend on property value per pupil, are calculated equitably.

## **exemption, property tax**

Freedom from the property tax granted to certain owners or for certain uses. For example, government buildings, consulates, educational institutions, and churches are generally exempt from the property tax.

## **expenditure limit**

A legal limit on annual increases in total expenditures in a jurisdiction.

## **fixture**

An improvement that is attached to property. Fixtures are considered real property if removal would damage the property but considered personal property if removal would not cause damage.

## **full disclosure laws**

Laws requiring local governments to disclose certain tax changes and hold public hearings on such changes. Such requirements may be considered a type of tax and expenditure limitation. Same as **full disclosure laws**.

## **highest and best use**

A principle that requires appraisal and assessment of property at its most profitable use. States often define market value based on the property's highest and best use.

## **home rule**

Delegation of power from the state to its sub-units of governments, creating autonomy and limiting the degree of state interference in local affairs.

## **homeowner???'s exemption**

A form of property tax relief that removes a portion of the assessed value of a homestead property from the tax base before the tax rate is applied. For example, a government may reduce the assessed value of all homesteads by \$50,000. This is sometimes called a homeowner's exemption.

## **homestead**

The principal residence of the property owner.

## **homestead exemption**

A form of property tax relief that removes a portion of the assessed value of a homestead property from the tax base before the tax rate is applied. For example, a government may reduce the assessed value of all homesteads by \$50,000. This is sometimes called a homeowner's exemption.

## **income approach to valuing property**

An assessment method that calculates a property's value as the present value of future net income expected to be generated by the property over its lifetime. For example, an appraiser would be likely to use the income approach when placing a value on commercial property. The other two approaches to valuing property are the cost approach and the sales comparison approach.

## improvements

Any real property that is not land, such as buildings, fences, driveways, tennis courts, utilities, and infrastructure.

## intangible personal property

Property that does not have a physical character or existence such as money, mortgages, stocks, bonds, and other paper claims to real and tangible personal property. Contrast **tangible personal property**.

## levy

(1) The amount of money to be raised by property taxation in a given taxing district.

(2) To use a tax district's legal authority to impose or collect the property tax.

## levy limit

A legal limit on the amount of revenue raised by the property tax or on the rate of growth in property tax revenues.

## market value

The price a property is most likely to fetch in the current real estate market.

## market value-in-use

In Indiana, the value a specific property has for a specific use. Same as use value.

## mass appraisal

The process of valuing a group of properties using standard methods, employing common data, and allowing for statistical testing. Values are estimated as of a given date. Same as **mass valuation**.

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## mills

Units equal to one-thousandth of one dollar, or one tenth of one cent. Property tax owed is computed by multiplying each \$1,000 in assessed value by the mill levy. For example, the property tax bill for a \$200,000 home in a town with a mill levy of 9 would be \$1,800 ( $200 * 9$ ).

## millage rate

An expression of the tax rate as mills per dollar. A millage rate of 20 mills per dollar could also be expressed as a tax rate of 2 percent, a rate of \$20 per \$1,000 of assessed value, or a rate of \$2 per \$100 of assessed value.

**net book value**

A property's cost minus depreciation.

**nominal tax rate**

The stated or statutory tax rate. For example, a nominal tax rate of 1.5 percent applied to a \$100,000 home would result in a tax bill of \$1,500. This assumes no complications such as homestead exemptions.

**parcel tax**

In California, a special tax levied at a flat amount per parcel. For example, a local government may, by a two-thirds majority vote, impose a tax of \$150 per parcel on all property within its jurisdiction.

**personal property**

Moveable items, not permanently affixed to or part of the real estate. For example, retail inventory may be taxed as personal property. Includes tangible personal property and intangible personal property.

**preferential assessment**

A system in which the property tax on participating land is reduced by reducing its assessed value, most commonly through use value assessment.

**present value**

The value of an income stream after discounting future payments by the appropriate interest rate. For example, the present value of a \$100,000 payment received a year from now would be \$94,340 if one assumes that the appropriate interest rate is 6 percent ( $100,000/1.06$ ).

**property tax cap**

A state-imposed limitation on local governments' ability to increase property taxes. States commonly limit increases in tax rates, assessed values, or tax levies.

**rate limit, for property tax**

A legal limit on property tax rates so that they are either frozen or limited by an index or formula.

**real property**

Land and permanent improvements to land, such as buildings.

**reappraisal**

Re-estimation of a property's monetary value.

### **reassessment**

(1) Rediscovering, relisting, and revaluing property, whether performed by an assessor, a board of review, or a court.

(2) Redetermination of the value of property by an assessor, board of review, or court.

### **rebate, property tax**

A refund of property taxes previously paid.

### **revaluation**

The process of re-estimating the value of a property or properties.

### **revenue limit**

A legal limit on annual increases in total revenues from all sources in a jurisdiction.

### **sales comparison approach to valuing property**

An assessment method that estimates a property's value with reference to comparable sales. The technique is different for single property appraisal and for mass appraisal:

(1) For single property appraisal, a small number of sales of property comparable to the subject property are found and analyzed, with adjustments made for significant differences between each comparable sale property and the subject property.

(2) For mass appraisal, a mass appraisal market model is built from statistical analysis of a sample of sales and property characteristics for a particular type of property in the tax district. The model, which is a formula, is then used to estimate market value for all property of the same type in the tax district.

An appraiser would be likely to use the sales comparison approach when placing a value on single family homes. The other two approaches to valuing property are the cost approach and the income approach.

### **school board**

The governing body that guides policy for a school district.

### **school committee**

The governing body that guides policy for a school district.

### **special assessment**

Charge levied on selected groups of properties to defray the costs of specific public improvements such as paving, sidewalks, or water lines. These charges can be assessed according to a physical measure, such as street frontage.

### **special district**

A local governmental unit formed to provide specific services or benefits such as flood control, fire protection, or transit. Special districts often use special assessments to finance the public improvements.

### **split-roll property tax system**

Generally, same as **classified property tax system**. In California, refers more broadly to proposals to change the way the property tax assessment limit applies to business property, so as to increase property taxes on businesses relative to residential property.

### **tangible personal property**

Moveable items with physical characteristics such as furniture, fixtures, machinery and equipment, motor vehicles, inventories of goods, and animals, both livestock and pets.

### **tax base, property**

The total assessed taxable value within a taxing district.

### **tax burden**

The economic costs of or losses resulting from the imposition of a tax. Tax burden measures usually do not account for tax shifting, which occurs when some of the tax burden is borne by individuals who did not pay the tax bill itself, such as when property taxes paid by a landlord are shifted to tenants in the form of higher rent.

### **tax capacity**

(1) In general, a government's potential ability to raise revenue through taxation, given the tax base in its jurisdiction.

(2) In Minnesota, a property's taxable value multiplied by the property tax rate for its class.

### **tax-exempt property**

Property excluded from taxation because of its type or use. For example, all 50 states exempt the property owned by some nonprofit organizations from taxation.

### **tax and expenditure limitations (TEs)**

Statutory and constitutional limits designed to control the growth of government public spending or promote accountability. Six basic types of tax and expenditure limits (TEs) are overall property tax rate limits, specific property tax rate limits, property tax levy limits, limits on general revenue or expenditure increases, limits on assessment increases, and truth-in-taxation requirements.

### **taxing district**

A state or any political subdivision of a state with the authority to levy taxes.

### **tax swap**

A policy whereby a government reduces or eliminates one tax, such as a property tax, and replaces the lost revenue by increasing or establishing another tax, such as a sales tax.

### **taxing unit**

Any political unit of a state that imposes property taxes, such as counties, municipalities, school districts, and special districts.

### **tax increment finance (TIF)**

Method of financing whereby growth in property taxes or other revenues in a designated geographic area is earmarked to support economic development in that area, usually to fund infrastructure improvements. Often bonds are issued to finance improvements in a TIF district, with future growth in property taxes used to pay back the bonds.

### **tax rate, for the property tax**

The percentage of assessed value at which property is taxed in a given taxing district. For example, a tax rate of 2 percent applied to a property with an assessed value of \$100,000 results in tax liability of \$2,000. This may be expressed as a tax rate of 20 mills.

### **truth-in-taxation requirements**

Laws requiring local governments to disclose certain tax changes and hold public hearings on such changes. Such requirements may be considered a type of tax and expenditure limitation. Same as full disclosure laws.

### **uniformity clause**

A constitutional provision that requires property taxation at a uniform rate within a jurisdiction.

### **use value**

The value of a property in a specific use. For example, many states assess the value of farmland in its current agricultural use rather than its most profitable use.

### **valuation**

The process of estimating the value of a property or properties. The value usually estimated is market value.

### **value freeze**

A mechanism that prevents any increase in assessed value from year to year.

### **work-off abatement**

A reduction of property tax liability for taxpayers who agree to perform volunteer work for the local government in lieu of paying the full property tax bill.

### **split-rate property tax system**

A system that applies a higher property tax rate to land than improvements.

### **expanded income**

Income from nontaxable sources of income like social security retirement income and nontaxable bond interest income.

### **tax stabilization agreements**

Tax incentives that freeze property taxes for a specified period of time, then gradually increase to full tax liability.

### **tax levy limit**

In Maine, a limit on growth of municipal property tax revenue determined by calculating the growth limitation factor and applying it to the prior year's limit.

### **growth limitation factor**

In Maine, a formula that combines growth in the value of newly taxable property, statewide growth in real personal income, and changes in state funding to the municipality.

### **base year**

Starting point used to calculate annual assessments in following years.

### **borough**

A type of governmental unit in Alaska, which is the equivalent of a county in other states.

### **county predetermined ratio (PA)**

In Pennsylvania, a term used to mean the assessment ratio set by the county. It is the fraction of market value used to establish a property's assessed value.

### **established predetermined ratio**

In Pennsylvania, a term used to mean the assessment ratio set by the county. It is the fraction of market value used to establish a property's assessed value.

### **farm-to-market road**

A state or county road that connects agricultural areas or ranches to towns, so that farmers and ranchers can bring their goods to market.

### **fee simple**

Complete ownership in a property, subject only to government powers such as eminent domain.

### **land value tax**

A type of property tax that exempts improvements and taxes land values only (in pure form) or taxes improvements at a lower rate (partial form).

### **levee district**

A special district government in Louisiana charged with constructing and maintaining flood-protection infrastructure.

### **millage**

An expression of the tax rate. A millage of 20 mills could also be expressed as a tax rate of 2 percent, a rate of \$20 per \$1,000 of assessed value, or a rate of \$2 per \$100 of assessed value.

### **parish**

A type of governmental unit in Louisiana, which is the equivalent of a county in other states.

### **split-rate tax**

A property tax in which land and improvements are taxed at different rates.

### **two-rate tax**

A property tax in which land and improvements are taxed at different rates.

### **borough (AK)**

A type of governmental unit in Alaska, which is the equivalent of a county in other states.

### **categorical aid**

Aid that recipient governments may spend only for narrowly defined purposes.

### **compensating tax rate**

In Kentucky, the property tax rate that produces an amount of revenue approximately equal to that produced in the preceding year.

### **county predetermined ratio**

In Pennsylvania, an assessment ratio set by the county that is the fraction of market value used to establish a property's assessed value. The same as **established predetermined ratio**.

### **occupational license tax**

In Kentucky, a charge for the privilege of working in or conducting business within a city which may be imposed as a percentage of gross earnings, gross receipts or net profits, or may be levied as a flat rate.

### **just value**

In Florida and Maine, the price a property is most likely to fetch in the current real estate market. Same as **market value**.

### **portability**

The ability of a homeowner to transfer or “port” tax savings realized under assessment limits to a new homestead property.

### **limited property value**

In Arizona, the greater of: (1) 110% of previous year’s limited property value, or (2) last year’s limited property value plus 25% of the difference between full cash value and limited property value. Cannot exceed full cash value.

### **primary property tax**

In Arizona, property taxes that fund the maintenance and operation budgets of state and local government entities.

### **secondary property taxes**

In Arizona, property taxes used to fund bond issues, budget overrides and special district funding.

### **government property lease excise tax (GPLET)**

In Arizona, an excise style property tax based on the physical characteristics of the development.

### **full cash value**

In Arizona, cash equivalent value of the property; similar to, but not always equal to market value. In Nevada, the most probable price which property would bring in a competitive and open market under all conditions requisite for a fair sale. The same as **market value**.

### **capped value**

In Michigan, equal to the prior year’s taxable value plus the prior year’s taxable value times the lesser of 5 percent or the annual inflation rate.

### **taxable value**

Generally, the appraised value minus exemptions or the value on which the property tax is levied. In Michigan, the lesser of assessed value or capped value. In Montana, assessed value less exemptions, multiplied by the assessment rate. In Nevada, the sum of the full cash value of the land plus the replacement cost new, less depreciation, of the improvements.

### **total household resources**

In Michigan, all income (taxable and nontaxable) received by all household members during a year.

### **foundation aid**

A form of school aid that endures that per-pupil expenditure meets or exceeds a certain minimum in all districts by filling the gap between the amount of funding a district can provide by setting a particular tax rates and the foundation amount.

### **"dark stores" assessment theory**

The theory that the best comparable sales for valuing big box stores are vacant or abandoned big box stores (dark stores).

### **general education levy**

In Minnesota, the portion of general education revenue received through the property tax.

### **ballot initiative**

A form of direct democracy whereby a petition signed by voters can bring about a public vote on a proposed statute or constitutional amendment.

### **real market value (OR)**

In Oregon, same as market value.

### **compression (OR)**

In Oregon, the reduction in property tax rates necessary so that the total tax rate on a particular property does not exceed the tax limit.

### **maximum assessed value (OR)**

In Oregon, a value assigned to a property in Oregon used in the calculation of taxable assessed value, which can increase by no more than 3 percent per year.

### **taxable assessed value (AL) (OR)**

In Alabama, the annual capped value of the growth in residential and commercial assessed values, not to exceed 7 percent. In Oregon, the value upon which the property tax is levied, which is equal to the lower of real market value and maximum assessed value.

### **ground rent**

Rent paid for the use and occupancy of a parcel of land.

### **rollback**

In **Delaware** and **Florida**, the rate required to raise the same revenue as in the previous year. In **Iowa**, A set of assessment limitations on the state's six classes of property which limit the growth in assessed value or set the taxable value at a certain fraction of assessed value, or both. In **Ohio**, a form of property tax credit provided by the state which works as a direct reduction of property tax liability by a specified percentage.

### **tax rate floor**

A minimum tax rate allowed by state law.

### **income sensitivity (VT)**

In Vermont, the system which allows certain homeowners to pay school taxes on their primary residences based on their household income rather than on their property value.

### **common level of appraisal (VT)**

In Vermont, the percentage of a district's fair market value embodied in its assessed value. It measures how close local assessments are to fair market values. In this term, assessment is equivalent to appraisal.

### **assessment tax rate**

The term used in Montana to refer to the fraction of market value used to establish a property's assessed value. The same term as **assessment ratio** or **assessment rate** used in other states.

### **productive value**

Value of land based on its income-producing ability in its current use (as opposed to market value).

### **yield control (NM)**

In New Mexico, a particular property tax levy cap, calculated separately for residential and non-residential properties, which ensures that growth in property tax revenues do not exceed the lesser of a calculated growth factor or 5 percent from the previous year, plus new property.

### **assessment cap credit**

In Washington, DC, a nonrefundable property tax credit for income-qualified elderly or disabled residents if the assessed value of their property increases by more than a set percentage over the previous year, intended to offset the corresponding increase in the tax bill.

### **"but for" requirement**

A criterion for certain economic development property tax incentives under which the municipality must affirm that, without the incentive, the development would not occur.

### **clawback**

A provision common in business property tax incentive laws that requires firms receiving abatements to pay back some or all of the abated property taxes if they fail to meet job creation targets or other program criteria.

### **foundation funding**

A form of school aid that ensures that per-pupil expenditure meets or exceeds a certain minimum in all districts by filling the gap between the foundation amount and the amount of funding a district can provide by setting a particular tax rate. The same as **foundation aid**.

### **property tax deferral**

Postponed payment of a homeowners' property taxes until the property is sold or the owner dies, at which time accrued property taxes and interest become payable.

### **sunset**

A statutory clause that repeals all or part of a law on a set date without action by the legislature to extend the law or make it permanent.

### **payments in lieu of taxes (PILOTs)**

Payments made voluntarily by tax-exempt nonprofits as a substitute for property taxes. In Ohio, property tax payments made by businesses within a tax increment finance district and deposited into TIF public improvement funds.

### **fee in lieu of tax (FILOT)**

In South Carolina, a negotiated fee paid by eligible manufacturers in lieu of paying property taxes.

### **levy lid**

A legal limit on the amount of revenue raised by the property tax or on the rate of growth in property tax revenues. Same as levy limit.

### **gross assessed value**

In Indiana, the assessed value of all property after the application of all exemptions.

### **multiresidential**

In Iowa, a class of property that includes mobile home parks, manufactured home communities, land-leased communities, assisted living facilities. property used for dwelling that has three or more units, and the portion of a building used for dwelling where human habitation is not the primary use of the building.

### **leasehold value**

The amount that would be paid for the right to occupy the property under the terms of a given lease.

### **farmstead**

A farm's principal residence.

### **constant yield rate**

In Maryland, the state-certified tax rate for each local government that, applied to the tax base, would raise the same amount of property tax revenue as the local government raised in the previous year.

### **coefficient of dispersion (COD)**

A measurement of assessment equity calculated as the average absolute deviation of each sales ratio from the median sales ratio.

### **debruce**

In Colorado, to override the state's levy limit in order to retain and spend excess local property tax revenue instead of refunding taxpayers. The term refers to the author of the TABOR tax limit legislation, Douglas Bruce.

### **current use valuation**

A valuation approach that assesses land based on its present use rather than its market value or highest potential use. Many states employ current use valuation to encourage the preservation of agricultural, forest, recreational, and open space land. The same as **current use assessment**.

### **true assessed value (AL)**

In Alabama, a property's assessed value without the 7 percent cap (calculated as market value times the assessment ratio).

### **homestead credit**

A form of property tax relief that provides a partial credit against the property tax bill for homes used as the taxpayer's primary residence.