University of Idaho
College of Agriculture
Cooperative Extension Service
Agricultural Experiment Station

Current Information Series No. 450
October 1978

PROPERTY TAXES
How Do They Work?

Diana R. Smith and Neil L. Meyer

Property taxes are the principal means by which cities and counties finance their operations and the services they provide. Property taxes constitute the only local financing for schools and are the primary sources for funding local roads and other services including police and fire protection. Next to income taxes, they also make the second biggest tax demand on most people's income.

As services provided in a community increase in number level or cost, property taxes necessarily go up. This is a process which has seemed to accelerate alarmingly in recent years. Most people are increasingly concerned about how their property taxes are assessed and how the collected dollars are spent. People also are confused about terms used and the complexity of the tax system.

This report explains why and how property taxes are levied.

The property tax is the major form of local taxation because it is considered the most dependable, collectible and stable. It can be levied within a limited area to pay for services in that area. Continued dependence on property taxes also stems partially from the traditional belief that local funding insures local control.[1]

The legal basis for property taxes is found in Chapter 63, Section 101, of the Idaho *Code*, which states "all property within the jurisdiction of this state, not expressly exempted, is subject to assessment and taxation." Property taxes are levied entirely by the county and then disbursed to other taxing districts like cities and schools.

Classes of Property

For taxation purposes, property is separated into categories or classes, only two of which affect most people—"real" property and "personal" property.

Real property is land, rights to land and anything that is affixed or connected to the land, including ditch and water rights and mining claims. Almost everything that is not "real" property is personal property, primarily money and goods.

Another class of property that generates local revenue, but in a slightly different way, is "operating" property. It consists of railroads, pipelines, telephone, telegraph and electric power lines. Taxes assessed on these are used for local purposes, but assessments are made exclusively by the State Tax Commission.

[1]Warnick, Kathleen. 1977. School Taxes. League of Women Voters, Moscow, ID.

All classes have exemptions from taxation including household goods, furniture, clothing, automobiles, hospitals, cemeteries, public libraries, growing crops and lands belonging to the United States, the state, counties, school districts and charitable organizations, to name a few.

Assessed Valuation

Property taxes are not levied on the actual or market value of property. Instead, they are levied on the assessed value, a fairly low percentage of market value. Assessed value is determined by multiplying the market value times the assessment ratio, a percentage figure set by each county.

Assessment ratios range fram 7.27% of market value in Bonner County, to 19.69% of market value in Butte County. The state average is 14.26% (Table 1).

This means that a $30,000 home located in Bonner County would have an assessed value of $2,181, while the same home in Butte County would be assessed at $5,778. Based on the state average, this home would have an assessed value of $4,278.

The state constitution provides that all properties should be assessed at the same rate, which, noting the different assessment ratios around the state, is obviously not being done. However, under a state law that stipulates they must be raised or lowered to 20% of market value everywhere in Idaho by 1982, assessment ratios should equalize. Assessment ratios on real and personal property are going up each year to meet the 20% rate by the 1982 deadline, while assessment ratios on operating property are coming down. As a result, the major tax burden is shifting from utilities and some types of commercial property to homeowners.

Mill Levies

Tax rates are expressed in terms of mill levies. A mill is one thousandth of a dollar ($.001). A tax rate of 20 mills is the same thing as a 20 mill levy, which is equal to $20 in taxes on each $1000 of assessed valuation. Thus, 10 mills equals 1%.

Tax Rates

Tax rates are generally determined by projecting the expenditures for the coming year and subtracting non-tax revenue from that figure. The result is divided by the assessed value of all property in the taxing district which results in the rate at which that property must be taxed to raise the necessary amount of revenue.

$$\text{Tax rate} = \frac{\text{Projected expenditures - projected non-tax revenue}}{\text{Assessed property value in taxing district}}$$

Where:

Assessed property value = market value x assessment ratio

Each taxing district (i.e., school district, sewer district, road district, etc.), estimates its budget for the year, then certifies that budget to the County Commissioners who determine how many mills must be assessed to raise it, working within a millage assessment limited by law.

Tax Collection

Each county is divided into code areas for taxing purposes, each code area consisting of several different taxing districts. This is necessary because each taxpayer usually only pays taxes into one of each kind of district, while the county may encompass several of each. All of the taxing district levies added together make up a total mill levy for each code area.

The actual taxes paid by each individual are determined by multiplying the assessed value of the individual's property by the total levy for the code area where the property lies.

For example, here are levies for two different code areas, both within Latah County. They are expressed in *cents per $100 of assessed valuation.*[2]

Code Area 201–Potlatch		Code Area 401–Genesee
.003	Total State	.003
2.9845	Total County	2.9845
.276	County Free Library	.276
4.111	City Tax	4.371
3.895	School District	3.320
1.088	Highway District	.820
.128	Cemetery District	.060
.145	Rural Fire District	---
12.6305¢	Total Code Area Levy per $100 assessed value	11.8345¢

Property tax bills for a $30,000 home in each code area would be computed like this:

Code Area 201–Potlatch

$30,000 (market value) x 13.61% (Latah County assessment ratio) = $4,083 (assessed value); then,

$\$4{,}083 \text{ (assessed value)} \times \frac{12.6305}{100.00} \text{ (total levy, code area 201)} =$

$515.70 in taxes due.

Code Area 401–Genesee

$30,000 (market value) x 13.61% (Latah County assessment ratio) = $4,083 (assessed value); then,

$\$4{,}083 \text{ (assessed value)} \times \frac{11.8345}{100.00} \text{ (total levy, code area 401)} =$

$483.20 in taxes due.

Using Table 1 and exact levies for each code area which are available from the county treasurer's office, you can figure tax charges for any piece of property in the state by taking the market value of the property times the assessment ratio for that county times the mill levy for the code area.

[2]The State Tax Commission requires that counties list tax rates in terms of cents per $100 of assessed valuation because it is more easily understandable than mills.

Table 1. Ratio of assessed to market value on real property in Idaho, 1976-77.

County	August 1976	August 1977
Ada	12.25 %	18.36 %
Adams	17.83	15.90
Bannock	12.30	13.39
Bear Lake	14.14	11.99
Benewah	14.11	13.39
Bingham	13.14	13.71
Blaine	16.74	18.15
Boise	15.62	15.63
Bonner	7.96	7.27
Bonneville	13.48	12.99
Boundary	13.78	14.24
Butte	19.25	19.69
Camas	17.92	16.11
Canyon	14.03	13.27
Caribou	13.03	13.11
Cassia	16.16	17.07
Clark	13.02	13.54
Clearwater	10.44	13.51
Custer	13.12	13.35
Elmore	16.54	16.80
Franklin	12.76	12.89
Fremont	11.78	11.38
Gem	16.54	14.61
Gooding	13.95	13.45
Idaho	15.19	17.74
Jefferson	16.74	16.32
Jerome	15.96	14.44
Kootenai	12.28	12.90
Latah	14.61	13.61
Lemhi	13.88	13.55
Lewis	16.90	16.90
Lincoln	14.47	14.16
Madison	13.19	13.81
Minidoka	13.59	14.50
Nez Perce	14.29	13.67
Oneida	14.90	13.76
Owyhee	15.01	14.49
Payette	14.99	14.38
Power	11.00	14.55
Shoshone	16.40	17.74
Teton	13.65	14.13
Twin Falls	12.12	12.23
Valley	14.91	13.16
Washington	16.03	14.76
State Average	13.43	14.26

These are the assessment ratios listed by the State Tax Commission and may, in some cases, differ from those listed by the individual counties because of different appraisal techniques used to determine market value. This also accounts for the fact that several listed here went down between 1976 and 1977, while most counties list them as having gone up.

THE AUTHORS–Diana R. Smith is a research assistant funded by the Comprehensive Employment and Training Act (CETA) and Neil L. Meyer is Extension Community Resource Development Specialist and Associate Extension Professor with expertise in resource economics and public policy. Both are in the Department of Agricultural Economics, University of Idaho, Moscow.

Community and Resource Development

Issued in furtherance of cooperative extension work in agriculture and home economics, Acts of May 8 and June 30, 1914, in cooperation with the U. S. Department of Agriculture, James L. Graves, Director of Cooperative Extension Service, University of Idaho, Moscow, Idaho 83843. We offer our programs and facilities to all people without regard to race, creed, color, sex, or national origin.

2M 10-78

5 cents per copy