

# Reassessment

## What Property Owners Need to Know



PENNSTATE



College of Agricultural Sciences  
Cooperative Extension

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Property reassessment is one of the most controversial and misunderstood local issues that arises in Pennsylvania. Taxpayers do not understand it, changes in assessed value can sometimes be dramatic, and the need for county commissioners to officially decide to reassess can politicize the process. Reassessments also tend to occur infrequently, contributing to taxpayers' unfamiliarity with the process.

Despite the controversy, reassessment is an important function of county government. It updates the values used for calculating real property taxes (also known as real estate taxes). These taxes are the largest source of tax revenue for school districts, boroughs, and counties. Updating assessed values also is important because it helps keep real property taxes from becoming too unfair and allows local governments and school districts to keep their revenues in pace with changing service demands. Because property assessment is a county function, it generally only occurs when county commissioners vote to do so. However, several counties recently have been forced to reassess by court order.

During reassessment, a county reevaluates the assessed value of all properties within its boundaries. The first step in determining the assessed value for a property is determining the property's market value. The market value is the price at which the property would sell with both a willing buyer and seller, neither of whom is under duress. The assessed value is calculated as a percentage of the market value. During reassessment, the County Board of Assessment Appeals sets the percentage that will be used on all properties in that county, and this is known as the assessment ratio. Unless the property itself has been changed, either through physical improvements or demolition which has affected its market value, the assessed value will not be recalculated until the next reassessment occurs.

Reassessment is not a windfall for local governments and school districts. State law requires local governments and school districts to lower their tax rates in the same proportion as the tax base increases. For example, if the tax base doubles, they will be required to reduce their tax rates by half.

Because reassessment has major implications for real property taxes, it is important for citizens to understand the process. This bulletin is intended to help property owners understand how reassessment is done in Pennsylvania. It begins with a look at how reassessment is conducted to provide some important background on the process, and then examines the reasons why reassessment occurs. Finally, it considers how reassessment may affect your taxes.

## How are properties reassessed?

Reassessment is the process of recalculating the market and assessed values of all properties in a county. There are four main steps in the assessment process:

1. Parcel identification and collection of information about each parcel
2. Appraisal or market valuation of the parcels
3. Determination of the assessed value using a percentage of the appraised value
4. Assessment appeals.

### PARCEL IDENTIFICATION

Before properties (also known as parcels) can be reassessed, they all must be identified. Parcel identification can be broken down into two main functions: identifying all parcels in the taxing jurisdiction, and then tracking the creation of new parcels as well as changes in ownership records.

Parcel discovery depends heavily on up-to-date property tax maps that show the location and boundaries of all known parcels in the county. These parcels are identified on the maps, using property identification numbers. Once parcels have been located, mapped, and assigned a property identification number, a property record card is prepared for each. Information on record cards is used to prepare the assessment roll (a list of taxable properties) and the tax liability of each parcel. The property description on the record card often is obtained through visits made to each parcel by the chief assessor or assistant assessors, or through information obtained from the property owner.

### PROPERTY APPRAISAL

The appraisal of property for tax purposes begins with an estimate of fair market value, or the price at which a property would sell in a competitive market when exchanged between a willing buyer and a willing seller. There are three standard approaches to appraising or valuing property: the comparative sales approach, the income approach, and the cost approach. In some cases, all three approaches are used, and the three value estimates are reconciled to one value. In many cases, however, there isn't enough information to use all three approaches, and all approaches are not appropriate for every property type.

### Comparative sales approach

The comparative sales, or market, approach to valuing property is based on the idea that similar properties that provide the same services or usefulness to a buyer will be valued similarly in the marketplace. The market value of a parcel that's being appraised, is done by comparing it with similar properties that have been sold.

The comparable sales, or market, approach is extremely useful for property types such as single-family, owner-occupied homes where ownership changes frequently and there are a large number of properties of the same type. This approach is not useful, however, with unique properties (such as an old railway station) or many commercial and industrial properties where few comparable properties exist or change ownership.

### Income approach

The income approach is based on the idea that a property's value is derived from the amount of income or enjoyment the property can produce over its lifetime. This expected future income can be converted to a property's present value, or how much that future income would be worth to an individual buying the property now. The present value is determined using a capitalization or interest rate that reflects the general level of interest rates expected to prevail in the economy over the life of the property and the future income figures.

This approach is particularly useful when assessing rental, commercial, and industrial properties, because the income and expense information necessary to compute expected net income is more readily available for them. The comparative sales approach usually does not work when assessing these properties because there are fewer sales of similar types of properties in these categories that can be used for comparison.

### Cost approach

The current cost of land plus the cost of replacing structures and other improvements forms the basis of this appraisal method. The cost of replacing all improvements is estimated (usually in dollars per square foot multiplied by the total square footage), and that figure is adjusted to reflect the age, condition, and usefulness of the existing improvements. Land value is determined separately.

The cost approach to valuing property is used primarily for properties that don't generate an income and are so unique that there are few or no comparable properties for which sales information is

available. Vacant buildings can be appraised using the cost approach. All other property types can be appraised using this approach, but the comparable sales and income approaches are more suitable.

#### DETERMINATION OF ASSESSED VALUES

Once the appraised, or market, value for each taxable parcel in the county has been determined, each property's assessed value can be calculated. The assessed value of a property is a set percentage of the market value. That percentage is known as the assessment ratio and should be the same for all properties in a taxing jurisdiction. The assessment ratio is set by the Board of Assessment Appeals in counties with a population of less than 225,000, and it applies to all jurisdictions within a county. The upper limit on the assessment ratio is 75 percent in these counties, and a minimum ratio is not specified in the assessment law. The only exception is cities of the third class, which may set their own assessment ratios up to 100 percent of market value under the Third Class City Assessment Law.

Assessed value is calculated by multiplying the market or appraisal value by the assessment ratio. For a residential property appraised or valued at \$60,000 and located in a taxing jurisdiction with a 50 percent assessment ratio, for example, the assessed value for the property is \$30,000 ( $\$60,000 \times 50 \text{ percent} = \$30,000$ ).

#### ASSESSMENT APPEALS

Once a property has been assessed for taxation purposes, the Fourth to Eighth Class County Assessment Law (which applies to all counties with less than 225,000 people) provides for property owners to appeal an assessment by notifying the board of Assessment Appeals. The filing date for an appeal is September 1 or within 40 days of a notice of assessment change, and hearings should be conducted by October 31. Taxpayers are to be notified of assessment changes by the board within five days after the board approves the change. The board is also required to notify the property owner when a parcel is added to the tax rolls.

Both recent assessment changes or past assessments may be appealed, and the taxpayer also has the option of appealing the board's decision through the judicial system. It is important to remember when appealing an assessment that the assessment is assumed to be correct, and the taxpayer assumes the burden of showing that the assessment is incorrect. The assessor is present at appeals hearings to present evidence in support of the assessment.

## Why do counties reassess?

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Some counties reassess voluntarily, while others do so under court order. There are two common reasons why reassessment is necessary. Fairness typically is cited as the most important reason. Avoiding restricting the ability of governments and school districts to raise revenues is also a reason in some counties. Either of these can be an important justification for reassessment.

#### FAIRNESS

Assessed values reflect the market values that are in place at the time the assessment occurs. As time passes, however, market values may change dramatically. If everyone's property increased in market value at the same rate, this would not be a problem. But the market value of some properties increases more quickly than others, and this causes inequities. The value of properties in fast-growing or trendy areas may increase more quickly than that of properties in slower growing or less fashionable regions. Some properties may even lose market value. None of these changes are reflected in the assessed values until reassessment occurs. Therefore, owners of properties that have decreased in value or have not increased as quickly as their neighbors will pay more than their fair share of taxes, while owners whose properties have increased rapidly in market value will pay less than their fair share. Reassessment recalculates the assessed values to make taxes fairly reflect the market values of properties. (See example 1.)

Example 1: Consider two taxpayers in Sample Township, both of whom own properties that were assessed at \$20,000 10 years ago. The properties are identical, except that taxpayer A's property is located in a fast-growing, trendy part of the township, while taxpayer B's property is located in an area that has become less desirable because it is near a newly built freeway.

In the ten years since the properties were assessed, taxpayer A's property has doubled in market value, while taxpayer B's property has not increased in value at all. Both taxpayers pay the same in real property tax because their properties are both assessed at \$20,000, even though now taxpayer A's property is worth twice as much as taxpayer B's. To be fair, taxpayer A should now pay twice as much in real property taxes as taxpayer B. Because assessed values have not been recalculated to reflect these changes in market value, the tax bills are unfair to taxpayer B, who is paying more than her fair share, while Taxpayer A pays less than her fair share.

#### AVOIDING RESTRICTING TAXATION

Another reason counties reassess is that old assessments may limit the amount of revenue received by local governments and school districts. Pennsylvania law sets a maximum tax rate that counties, municipalities, and school districts may levy.

Even though a county, township, borough, or school district may have experienced tremendous increases in market value and increases in the demand for services, they may find themselves unable to raise tax rates to provide these services because unchanging assessed values have not allowed their tax base to grow. Without reassessment, the local government or school district is forced to raise tax rates to generate sufficient revenues to operate. If the government has to do this enough times, it may even find its tax rates at the maximum allowed by the Commonwealth, and will not be able to raise them further. By contrast, if a county frequently reassesses property, the local governments and school districts may never have to raise tax rates as long as the growth in the tax base keeps pace with revenue needs.

## How will reassessment affect my taxes?

To understand how reassessment affects an individual's taxes, what is first needed is a basic knowledge of how real property taxes work. It's important to understand how real property tax rates are set, how the tax base affects tax rates, and what affects how much real property tax a property owner pays. Each of these will be examined in turn before addressing the issue of how a reassessment may affect individuals' taxes.

#### HOW ARE REAL PROPERTY TAX RATES SET?

At the end of each year, local officials consider how much money their local government or school district will need in the upcoming year. However much of this that cannot be raised from nontax sources (such as state aid, license fees, fines, and grants) has to be raised from taxes. The local officials set the real property tax rate by determining how much of this difference they want to generate from the real property tax. The revenue generated is determined by multiplying the tax rate times the total value of all properties in the local boundaries (this is called the tax base—see Equation 1).

**Equation 1:** Revenue Needed = Tax Rate X Tax Base

This equation can be changed, using simple algebra, to show how to calculate the tax rate (see Equation 2).

**Equation 2:** Tax Rate = Revenue Needed ÷ Tax Base

By dividing the amount of money needed from real property taxes (Revenue Needed) by the size of the real property tax base, local officials can calculate the tax rate that must be levied. Example 2 (next page) shows how this works.

Example 2: The value of Sample Township's real property tax base equals \$1,000,000. If the township government requires \$10,000 in real property tax revenue to balance its budget, the supervisors make the following calculation to decide what the tax rate must be:

$$\begin{aligned} \text{Tax Rate} &= \text{Revenue Needed} \div \text{Tax Base} \\ &\text{or} \\ \text{Tax Rate} &= \$10,000 \div \$1,000,000 \\ &\text{or} \\ 1 \text{ percent} &= \$10,000 \div \$1,000,000 \end{aligned}$$

To raise \$10,000 of real property tax in Sample Township, the township supervisors must levy a 1 percent tax rate.

#### HOW DOES THE TAX BASE AFFECT TAX RATES?

The size of the real property tax base is important because it helps determine how much revenue any one tax rate can generate. A larger tax base means tax rates can be lower and still raise the same amount of tax revenue for a local government or school district. This is why living in a wealthier tax base can be beneficial to a homeowner—the tax burden can be more widely spread, making individual property owners' tax bills smaller. This is also one reason why Pennsylvania allocates state money to local school districts—wealthier school districts have an easier time generating tax revenues than do poorer districts. In fact, individual taxpayers in poorer districts can end up paying more in local taxes than taxpayers in wealthier districts simply because their districts' tax bases are not as broad. Example 3 provides a closer look at this.

Example 3: Compare the millage rate in Sample Township to the millage rate in Bigger Township. The supervisors in Bigger Township also need to raise \$10,000, but their real property tax base is \$2,000,000 (twice as big as Sample Township's tax base). Bigger Township's supervisors calculate the millage rate they require to raise \$10,000 and come up with a much different tax rate.

$$\begin{aligned} \text{Tax Rate} &= \text{Revenue Needed} \div \text{Tax Base} \\ &\text{or} \\ \text{Tax Rate} &= \$10,000 \div \$2,000,000 \\ &\text{or} \\ 1/2 \text{ percent} &= \$10,000 \div \$2,000,000 \end{aligned}$$

Bigger Township's tax rate is half the size of the millage rate in Sample Township, even though the amount of tax revenue each township collects is identical. The owner of a property in Sample Township assessed at \$50,000 would pay \$500 in real property taxes (\$50,000 X 1 percent tax rate = \$500), while the owner of a property in Bigger Township also assessed at \$50,000 would only pay \$250 in real property taxes (\$50,000 ÷ 1/2 percent tax rate = \$250).

#### WHAT AFFECTS HOW MUCH TAX A PROPERTY OWNER PAYS?

The amount of real property tax paid is the tax rate multiplied by the assessed value of the property (see Example 4). Because the tax rate is determined by the size of the tax base, however, the real property taxes owed also can be calculated by comparing the assessed value of the property and the total size of the tax base. If a taxpayer's property is 2 percent of the tax base, that person will pay 2 percent of all real property tax revenues (see the second part of Example 4), no matter what the tax rate.

Knowing this relationship between the amount a person pays and the overall size of the tax base is crucial for understanding the impacts of reassessment. The smaller a property's share of the total tax base, the smaller the portion of all real property taxes that will be paid by that property owner. Conversely, the larger the property's share of the tax base, the larger the share of all real property taxes that will be paid by the property owner.

Example 4: A taxpayer in Sample Township with a property assessed at \$20,000, for example, will owe \$200 in property tax if the tax rate is 1 percent.

$$\begin{aligned} \text{Tax owed} &= \text{assessed value} \times \text{tax rate} \\ &\text{or} \\ \text{Tax owed} &= \$20,000 \times 1 \text{ percent} \\ &\text{or} \\ \$200 &= \$20,000 \times 1 \text{ percent} \end{aligned}$$

Now, consider the taxpayer in Sample Township who owns a property assessed at \$20,000, and whose property is 2 percent of Sample Township's tax base ( $\$20,000 \div \$1,000,000 = 2$  percent). If the township needs \$10,000 in real property tax, as illustrated earlier, the taxpayer will pay 2 percent of that \$10,000, or \$200 in property tax.

$$\begin{aligned} \text{Tax owed} &= \text{Share of tax base} \times \text{tax revenue needed} \\ &\text{or} \\ \text{Tax owed} &= 2 \text{ percent} \times \$10,000 \\ &\text{or} \\ \$200 &= 2 \text{ percent} \times \$10,000 \end{aligned}$$

Notice that this is the same amount as calculated using the tax rate.

#### WILL REASSESSMENT INCREASE MY TAXES?

Not all property owners pay more due to reassessment. Whether reassessment raises or lowers your taxes depends upon how your property's assessment changes *compared to the change in the total tax base*. As we saw in the last example, the amount a person pays is affected by the property's share of the total tax base. If reassessment increases your property's assessed value proportionally more than it does the total tax base, your taxes probably will increase (for example, if your property doubled in value but the total tax base only increased by 80 percent). If your property's assessed value increases proportionally less than the total tax base, your taxes probably will decrease (for example, if your property doubled in value but the total tax base increased by 110 percent). Example 5 demonstrates the importance of the changes in the total tax base.

Example 5: Consider three properties in Sample Township, each with an assessed value of \$20,000. After reassessment the total tax base has doubled to \$2,000,000. The assessed value of property A increased by 50 percent, the assessed value of property B doubled, and the assessed value of property C increased by 250 percent.

#### Before Reassessment

Total Tax base: \$1,000,000  
Township Requires: \$10,000  
Tax Rate: 1 percent

PROPERTY OWNER	ASSESSED VALUE	SHARE OF TAX BASE	TAX
A	\$20,000	2%	\$200
B	\$20,000	2%	\$200
C	\$20,000	2%	\$200

#### After Reassessment

Total Tax base: \$2,000,000  
Township Requires: \$10,000  
Tax Rate: ½ percent

PROPERTY OWNER	ASSESSED VALUE	SHARE OF TAX BASE	TAX
A	\$30,000	1.5%	\$150
B	\$40,000	2%	\$200
C	\$50,000	2.5%	\$250

Note that even though all the properties increased in value, only property C ended up with higher taxes after reassessment. Because its assessed value increased proportionally more than the total tax base increased, its taxes also increased. The assessed value of property B increased in the same proportion as the total tax base (both doubled), so its owner has the same tax burden after reassessment as he did before reassessment. Because the assessed value of property A increased less proportionally than the total tax base, its tax burden also decreased.

Property owners facing reassessment should be aware of the following three tax bases that their properties are part of:

- their county's tax base, which includes all properties in their county
- their municipality's tax base, which is composed only of the properties located in their borough, township, or city
- their school district's tax base, which includes all properties in the school district.

The impact of reassessment on the amount a taxpayer will pay in county, municipal, and school district taxes depends upon how much the property increases in value compared to each of these tax bases. A property may, for example, decline in its share of the county and school district tax bases (thus paying less in county and school district taxes) while increasing its share of the municipal tax base (thus paying more in municipal taxes). The important thing to understand is that a large increase in your property's assessed value in and of itself does not necessarily mean that your taxes will increase. What is important is how your property's value changes compared to how the tax base changes.

Property owners should also be aware that agricultural and forest lands may qualify for special treatment under reassessment. The Clean and Green Act, Pennsylvania Legislative Act 319, of 1974, is intended to help preserve farm and forest land. It allows eligible farm and forest land to be assessed on the basis of current use instead of market value. Agricultural land, for example, will be assessed using the agricultural productive value of the land instead of the value a developer may pay for it. In many cases, this can be a significant tax savings for the landowner. Eligible land includes agricultural land that has been farmed for a minimum of the last three years and either contains 10 or more contiguous acres or has an anticipated yearly gross income of at least \$2,000. Agricultural or forest land parcels of 10 or more contiguous acres are eligible for the program without regard to the income minimum. For more information on the Clean and Green Act, contact your county Cooperative Extension office or your county assessment office.

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## Glossary

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**Assessed value:** The official value used for determining real property tax bills. It is a set percentage of the property's market value (this percentage is called the assessment ratio).

**Assessment ratio:** The officially determined ratio between market and assessed values. During reassessment, this ratio is used to convert market values into assessed values. The Assessment Ratio is set by the County Board of Assessment Appeals.

**Common level ratio:** The ratio between market and assessed values. Immediately after reassessment, the common level ratio will be the same as the assessment ratio. But as market values increase over time and the assessed value remains unchanged, the common level ratio will fall.

**Mills:** Real property tax rates are expressed in mills. One mill is 1/1000 of the assessed value.

**Tax base:** The tax base is the total assessed value of all properties in the jurisdiction—the sum of the assessed value of your property, all your neighbors' properties, and all commercial, farm, and industrial properties. Townships, boroughs, counties, and school districts each have their own tax base, composed of the value of the properties within their boundaries. The tax base also demonstrates who pays what percentage of all the real property tax collected in a district. For example, if the assessed value of agricultural land is 20 percent of the total tax base, agricultural land owners will pay about 20 percent of all real property taxes.

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