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COUNTY FINANCE: LESSON ONE

SLIDE TWO

This lesson provides general instruction on determining the value of a tax mill, determining a rate of taxation necessary to service a budget, and applying that rate to an assessed value to compute property tax liability.

SLIDE THREE

A. **What is the value of one tax mill?**

To understand the value of one tax mill, it is first necessary to understand the concept of **assessed value**. The assessed value for a given piece of property, sometimes called its **assessment**, is best thought of as that portion of a property's market value that is taxed. This "taxable value" is derived from applying an **assessment ratio** to the property's **market value**.

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By statute, different types of property have different assessment ratios. An owner-occupied home is assessed at 4% of its market value. Personal property, such as an automobile or a boat, is assessed at 6%. Business real estate and rental properties (as well as non-income producing second homes) are also assessed at 6%. Agricultural-use property is assessed at 4%, though the assessment ratio is not tied to a market value, but to a much lower, statutorily determined value. Some properties (furniture, fixtures and equipment for businesses and industry) are assessed at 10.5%.

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Some Examples of Assessment Ratios and the Assessed Values they Produce:

- An owner-occupied home valued at $200,000 is taxed based on an assessed value of $8,000 ($200,000 X .04).
- An automobile valued at $20,000 is taxed based on a $1,200 assessed value ($20,000 X .06).
- Business real estate (or a second home) valued at $400,000 is taxed based on an assessed value of $24,000 ($400,000 X .06).
- $60,000 of furniture, fixtures and equipment in a business or industry would be assessed at $6,300 ($60,000 X .105).

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How does assessed value relate to the value of one tax mill?

Earlier, we said that the notion of assessed value is integral to understanding the value of one tax mill. How is this so? Just as each individual piece of property has an assessed value, so does the tax base at large. The assessed value of the tax base is simply the combined assessed values of all individual properties located or registered within a jurisdiction, and against which a tax rate (millage rate) will be applied.

So, if we add together all the assessed values for all the different types of property within the county – homes, cars, vacant land, business real estate, business personal property, rental property, railway and utility easements, etc. – we arrive at the assessed value for the entire jurisdiction. Note that some industrial properties contribute to the value of a tax mill, but many – those given fee in lieu of taxes (FILOT) treatment – do not.

The Value of One Tax Mill -- For any given jurisdiction, the value of one tax mill is equal to the combined total of all assessed values for all taxable properties within that jurisdiction divided by 1,000 (or multiplied by .001).

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Quick Facts about the Value of One Tax Mill in Newberry County (Council Levies Only)

- The mill value amount used for budgeting purposes in FY 20-21 (tax bills mailed in the fall of 2020) was $145,447. The June 30, 2021, audited financial statements will determine the collected (actual) mill value.
- The collected (actual) mill value amount for FY 19-20, as shown in the June 30, 2020, audited financial statements, was $143,338, as compared to a budgeted mill value of $141,755.

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B. <u>Why does the value of a tax mill matter, for practical purposes?</u>

The tax millage – the total number of mills levied – determines both the total of property taxes collected by the County and the individual property owner's property tax liability. There are 64 total sources of revenue for the County's general operating budget. For purposes of this discussion, however, they are best divided into two groups: 1) current year property tax revenues, 2) all others.

For any given year, once all spending needs of the County have been determined, the combined revenue from all sources other than current year property taxation is subtracted from this total of proposed expenditures. The difference must come from current year property taxes. In this sense, property taxation is the revenue source of last resort. (It also happens to be the County's largest source of revenue.)

For the current budget year, the County's general operating spending needs total $26,661,566. Of this amount, $9,294,257 will come from revenue sources other than property taxation. The remaining $17,367,309 will come from applying a levy to the multitude of properties, real and personal, that are taxed based on the aforementioned market values, assessment ratios and assessments. The task, then, is to determine exactly how many mills of taxation is necessary to produce the desired result of $17,367,309.

Assuming we have estimated the value of one tax mill with reasonable accuracy, the task is easy to accomplish. We simply divide our estimated mill value ($145,447) into our property tax needs ($17,367,309) to arrive at the number of mills required (119.4). As with dividing total assessed value by 1,000 (or multiplying it by .001) to determine the value of one tax mill, the number of tax mills required is divided by 1,000 (or multiplied by .001) to determine the rate of taxation that must be applied against the assessed value of the tax base at large, as well as to each individual assessment. Thus, 119.4 mills is converted to a millage rate of .1194.

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Returning to our examples of assessment ratios and assessed values above, we then obtain the following property tax liability amounts for the County's general fund levy:

- The $200,000 owner-occupied home with as assessed value of $8,000 generates a property tax liability to its owner of $955.20 ($8,000 X .1194).
- The $20,000 automobile with an assessed value of $1,200 generates a property tax liability to its owner of $143.28 ($1,200 X .1194).
- The $400,000 business real estate (or second home/rental property) with an assessed value of $24,000 generates a property tax liability to its owner of $2,865.60 ($24,000 X .1194).
- The $60,000 of furniture, fixtures and equipment with an assessed value of $6,300 generates a property tax liability to the owner of the business or industry it resides in of $661.50 ($6,300 X .1194).

This concludes the general instruction on determining the value of a tax mill, determining a rate of taxation necessary to service a budget, and applying that rate to an assessed value to compute property tax liability.