

UNDERSTANDING THE ASSESSMENT CAP

The passage of Proposal A in March 1994 drastically changed the property assessment and taxation system. Some of the changes are hard to understand. The confusion is compounded because many of the old laws that are still in effect may appear to be in conflict with the intent of Proposal A.

VALUES

One such change is the "assessment cap". The language in Proposal A stated that, starting in 1995, the taxable assessment can be increased only by the amount of the consumer price index (C. P. I.) or 5% (whichever is less). However, other laws still require that the State Equalized Value (S.E.V) is to be 50% of the current market value. Since 1982, the S.E.V. and assessed value have been virtually the same. The capped value and the S.E.V. could be totally different.

As a result, there will be three different "values" recorded for each property:

- Capped Value
- State Equalized Value
- Taxable Value

The property taxes will be calculated on the Taxable Value.

ESTIMATING MARKET VALUE

Starting in 1995, the Assessor will still be required to estimate the market value of every property and record 50% of that as the State Equalized Value. In addition, the Assessor will also be required to multiply individually each 1994 assessment by the C.P.I to calculate each individual capped value. The lesser of the two will be the 1995 taxable value for that property. Structural items not previously assessed, for example new construction, are to be added to the new values.

With this new system, in most cases, a property's taxable value will not be increased more than the previous year's taxable value times the C.P.I. This "capping" process will continue annually until the ownership is transferred.

TRANSFER OF OWNERSHIP

When a transfer of ownership occurs, the next taxable value will be based on the State Equalized Value that had been calculated annually. New legislation states that the actual sales price must not be the sole basis of the new S.E.V. for that property.

SUMMARIZING

- **State Equalized Value** (S.E.V.) equals half of the Appraised Market Value.

- **Capped Value** equals last year's taxable value increased by the Consumer Price Index (with a maximum of 5%) plus construction changes.
- **Taxable Value** equals the lesser of the State Equalized and Capped Values. The Taxable Value will be used for the calculation of property taxes.

EXAMPLE 1

A home has a market value of \$80,000. The State Equalized Value (S.E.V.) was \$40,000. Sales of comparable homes in the neighborhood show that the market value has increased to \$84,000. The annual C.P.I. is 1,026.

- 1995 S.E.V is \$42,000. (half the appraised value)
- 1995 Capped Value is \$41,040 (\$40,00 times 1.026)
- 1995 Taxable Value is \$41,040 (lesser of Capped Value and S.E.V.)

EXAMPLE 2

Same information as in Example 1, except that in this instance, an addition worth \$10,000, was built. The market value of the property is now \$94,000.

- 1995 S.E.V is \$47,000 (half the appraised value)
- 1995 Capped Value is \$46,040 (\$40,000 times 1.026) + \$5,000
- 1995 Taxable Value is \$46,040 (lesser of Capped Value and S.E.V.)

EXAMPLE 3

A home has a market value of \$80,000. The S.E.V. was \$40,000. Sales of comparable homes in the neighborhood show that the market value has decreased to \$78,000. The C.P.I. is 1.026

- 1995 SE.V. is \$39,000 (half the appraised value)
- 1995 Capped Value is \$41,040 (\$40,000 times 1.026)
- 1995 Taxable Value is \$39,000 (lesser of Capped Value and SE.V.)

EXAMPLE 4

Looking into the future, assume that several years have passed. Each year there has been a S.E.V and capped value calculated. The taxable value for year 2020 is \$65,000 and the S.E.V. is \$68,000. The property sold in 2020 for \$136,000. The C.P.I. is 3%. Sales of homes show that the property's appraised market value is \$137,000.

- 2021 S.E.V. would be \$68,500 (half the appraised value)
- 2021 Capped Value would be \$66,950 (\$65,000 times 1.03)
- 2021 Taxable Value would be \$68,500 (transfer of ownership removes the "cap" and per State law, the S.E.V becomes the taxable value)