



# The Process of Taxation: How It *Really* Works

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The property taxes you pay are a combination of City, County, School District, and State property taxes. Property taxes are also known as *real estate taxes* and *ad valorem taxes*.

Your tax is calculated based on the amount of money budgeted by each taxing entity (City, County, School, and State) and the valuation of your property.

## DEFINITIONS

**Appraised Value** – The Fair Market Value of your home as determined by the County Appraiser.

**Assessed Value** – The amount of your *appraised value* on which you pay tax.

**Mill** – One thousandth of the total property valuation within a taxing district.

**Mill Levy** – The total number of mills required to generate the budgeted funds of a taxing entity. For each mill levied, you pay \$1 in tax for each \$1,000 of assessed value of your property.

**Taxing Entity** – A political body authorized to levy taxes for the purposes of operating government; e.g. City, County, School District, Fire District, Cemetery District, Hospital District, etc.

## PROPERTY VALUATION

There are two terms associated with property valuation; *appraised value* and *assessed value*.

The *appraised value* is the fair market value of your property as determined by the County Appraiser. You do not pay taxes on this total amount but rather, you pay taxes on a *portion* of that property value. This portion is called the *assessed value*.

Dependent upon the property type is what determines how much of your property is *assessed* for taxes. For residential property owners, you pay taxes on 11.5% of the appraised property value. If you take the *appraised value* and multiply it by 11.5% (.115), you can determine the *assessed value*.

This multiplier is different for different property types. Vacant lots are assessed at 12%, commercial property is assessed at 25%. The chart below shows the different property types and the multiplier that determines the *assessed value*.

#### Property Class

11.5 % - Residential: includes homes, apartments and condominiums

12.0 % - Vacant Lots: vacant land with no improvements

12.0 % - NFP: real property owned and operated by not-for-profit organizations

25.0 % - Commercial: real property used for commercial or industrial purposes

25.0 % - Ag Imprv: improvements on land devoted to agricultural use

30.0 % - Ag Land: land devoted to agricultural use

30.0 % - Other NEC: all other real property not elsewhere classified

## **MILL LEVY**

The tax rate, as it is often referred to, is called the *mill levy*. For each "mill" of the mill levy, you will pay one dollar for *each* \$1,000 of *assessed* property valuation. How is the "mill levy" determined?

Each year, the value of all properties combined within a taxing district (City, County, School, and State) is totaled. The valuation will be different for each district because the size and geographical boundaries of each district varies and therefore the amount of property within that district varies. This total valuation is divided by 1,000, the result of which

determines how much money one "mill" will generate (*the value of a mill*)..

For example, it is estimated that the total property valuation in the *City of Wellington* for this next tax year is \$40,019,321.00. The actual amount will not be calculated finally until October. Dividing this figure by 1,000 means that one "mill" will generate \$40,019 in tax revenues (*the value of a mill* is \$40,019). This *value of a mill* changes from year to year as property valuations change. Property valuations change due to appraisals, tax exemptions granted by taxing entities, property that is demolished, property types that change, new houses built, etc.

When the City of Wellington establishes and sets their annual budget, the County Clerk determines how many "mills" will have to be levied in order to generate those funds. This is accomplished by dividing the established budget by the *value of a mill*. An easy example would be if the City's budget is \$400,190.00, the *mill levy* (the number of mills required to generate the budget) would be "10" (\$400,190 divided by \$40,019 equals 10). If the budget were to be set at \$1,000,475.00, the mill levy would be 25 (\$1,000,475.00 divided by \$40,019 equals 25).

## CALCULATING YOUR TAXES

The formula for calculating your taxes is "Assessed Value X Mill Levy / 1,000". Multiply your *appraised value* times the multiplier factor for the property type. This will give you the *assessed value*. Take the *assessed value* and multiply it by the *mill levy*, then divide the result by 1,000.

Your *assessed value* will remain the same for all four taxing entities, however the *mill levy* will be different. Repeat the process for your County, School, and State taxes and total all together to determine your total property tax bill.

Let's figure an example.

**1. In 2004, the total property valuation of the City of Wellington was \$36,614,554.00. Dividing this figure by 1,000 determined that *one mill* would generate \$36,614.55 in property tax money.**

2. In 2004, the City of Wellington set a property tax budget of \$1,813,262.00. The *value of a mill* (we determined earlier) was \$36,614.55. By dividing \$1,813,262 by \$36,614.55, we have determined that it will take 49.523 mills to generate the budget; the *mill levy* was 49.523.

3. Your home has an appraised value of \$50,000. The *assessed value* is 11.5% of that, or \$5,750.

4. Using the formula for figuring your taxes, "Assessed Value X Mill Levy / 1,000", we compute  $\$5,750 \times 49.523 / 1,000$ . If you owned a \$50,000 home in 2004, your *City* taxes would have been \$284.76.

## HOW DOES THE APPRAISED VALUATION OF YOUR PROPERTY AFFECT YOUR TAXES?

Let's figure another example, but we will *double* the property valuation for everyone.

1. The total property valuation of the City of Wellington has doubled to \$73,229,108.00. Dividing this figure by 1,000 determines that the *value of the mill* now generates \$73,229.11 in property tax money.

2. The property tax budget remains the same at \$1,813,262.00. The *value of a mill* (we determined earlier) was \$73,229.11. By dividing \$1,813,262 by \$73,229.11, we have levied 24.761 mills; the *mill levy* is now 24.761.

3. Your home's appraised value has doubled to \$100,000. The *assessed value* is 11.5% of that, or \$11,500.00.

4. Using the formula for figuring your taxes, "Assessed Value X Mill Levy / 1,000", we compute  $\$11,500 \times 24.761 / 1,000$ . Your *City* taxes are still \$284.75.

Why didn't your taxes go up with the increased valuation? *Because the City Budget remained the same.*

The *mill levy* or *tax rate*, along with the appraised value of your property has nothing to do with the taxes you pay. The rise and fall of taxes depends solely on the taxing entities budget.

Elected and appointed officials like to focus your attention on the *mill levy* however. They make you believe that if they keep the *mill levy* the same, they are not increasing your taxes. Blame is then shifted to a rise in appraised values for your increasing taxes when in reality, the appraised value has nothing to do with the rise in taxes. The extra money generated by rising property values is budgeted and spent.

Here is how it works. Taxing entities wait to establish the budget until after the total valuation estimate is released. When it is known that property values have increased, which in turn, increases the *value of a mill*, the taxing entities can increase their budgets proportionately without increasing the mill levy. Your taxes go up, because the rise in the budget causes your taxes to go up.

To demonstrate this, let's look at one more example:

**1. Using 2004 figures, the total property valuation of the City of Wellington at \$36,614,554.00 has increased 10% to \$40,276,009.00. Dividing this figure by 1,000 determined that the value of *one mill* now has increased from \$36,614.55 to \$40,276.01.**

**2. The mill levy for the previous year was 49.523 and it is left the same. Multiply the mill levy by the value of a mill and we determine that \$1,994,589 can be generated without raising the mill levy. We now increase the budget to this amount, increasing it by \$181,327.**

**3. Your home's appraised value has increased 10% to \$55,000. The *assessed value* is 11.5% of that, or \$6,325.00.**

**4. Using the formula for figuring your taxes, "Assessed Value X Mill Levy / 1,000", we compute  $\$6,325 \times 49.523 / 1,000$ . Your *City* taxes are now \$313.23, increased from \$284.74.**

Your property valuation increased and is blamed for the tax increase because the *taxing entity didn't raise the mill levy*. The mill levy is not set by the taxing entities but rather, is simply a figure determined

**by the County Clerk to calculate how to generate the tax money requested by the taxing entity.**

## **SUMMARY**

Don't be fooled when an elected official claims they didn't raise your taxes and don't be fooled when an elected official blames increasing property valuations for your tax increase. This is absolutely untrue.

To quote the headlines from a Wichita Eagle article last year; "County [Sedgwick] Commissioners promise no Tax Rate increase." In small print below that was the line, "Increasing property values raise needed funding."

If you are concerned about taxes, focus on the City's budget and attend the scheduled public hearings on the annual budget. Don't focus on the mill levy or on property valuations; it will be a waste of your time.