OLR RESEARCH REPORT

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OPTIONS FOR IMPLEMENTING REVALUATION

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You asked which states give municipalities options for implementing a property tax revaluation that captures increases in a property's fair market value.

SUMMARY

Connecticut and Georgia allow municipalities to mitigate increases in property values that a revaluation captures. Connecticut allows them to phase in the increase over five years, while Georgia allows counties to freeze the pre-revaluation value for owner-occupied homes.

Five other states require municipalities to mitigate increases and specify how they must do so.

1. Arkansas limits the increase to a specified percentage of pre-revaluation values and freezes the values for elderly homeowners and those with disabilities.

2. Colorado requires municipalities to adjust the assessment ratio for residential property so that its share of the assessed value for all types of property is 45%. (The assessment ratio is the portion of a property's fair market value that is subject to the tax.)

3. Maryland and Montana require municipalities to phase in the increase in assessed values over a specified time.

4. Lastly, Delaware limits the extent to which counties can increase tax revenue after a revaluation.

Most states, including several listed above, attempt to mitigate annual increases in property taxes regardless of whether property was revalued by imposing annual limits on increases in assessed values (i.e., assessment limits), property tax rates (i.e., rate limits), or revenue collection (i.e., levy limits). Some impose a combination of these limits. As Attachment 1 shows, 19 states, including Maine, impose assessment limits; 31 states, including Massachusetts, impose rate limits; and 31 states, including Maine, Massachusetts, Rhode Island, and Vermont, impose levy limits.

ANNUAL LIMITS ON POST REVALUATION ASSESSMENT INCREASES

Arkansas and Colorado law impose different methods for limiting post- revaluation increases in assessed values (i.e., the amount of fair market value subject to the tax).

Arkansas

Arkansas's Constitution requires municipalities to limit increases in assessed values to a specified percentage of the pre-revaluation values. The percentage for owner-occupied homes is 5% per year up to the property's reappraised value. The limit for all other property is 10% per year up to the property's reappraised value. The constitution also requires municipalities to freeze the assessment for homes owned and occupied by elderly people and those with disabilities (Ark. Const. Amendment 79).

Colorado

Colorado's Constitution implicitly recognizes that a revaluation could shift the tax burden between residential and business property, which happens when increases in residential property values outpace those in business property values between revaluations. Instead of allowing the burden to shift with market forces, the constitution:

1. apportions 45% of the burden to residential property and 55% to business,

2. sets the assessment ratio for business property at 29% of fair market value, and

3. requires the legislature to maintain the "45/55 split" by annually adjusting the ratio for residential property (currently, 7.96%) (Colo. Const. Article X, § 3).

ANNUAL PHASE-IN OF ASSESSMENT INCREASES

Connecticut allows municipalities to phase in post revaluation assessment increases while Maryland and Montana require them to do so.

Connecticut

Connecticut law allows municipalities to phase in post-revaluation increases in property values and gives them four options for doing so (CGS § 12-62c). They can phase in the dollar increase in a property's assessed value after revaluation in equal increments during the five-year period between revaluations. (By law, municipalities must revalue property at least once every five years.) Or, they can phase in the rate (i.e., percentage) at which the property's assessment increased after a revaluation. The percentage equals the difference between two ratios:

1. the ratio of the property's assessed value before revaluation to its fair market value after revaluation and

2. the ratio of the property's assessed value to its fair market value after revaluation, which is always 70%.

The third option is a variation of the percentage phase-in option. Municipalities can divide properties into classes and phase in the rate at which the assessment increased for each class. In other words, instead of equally phasing in the rate at which all properties' assessment increased, municipalities can phase in separate rates for all properties within a class. As with the other methods, the phase-in period is up to five years.

The fourth option uses the first or second option to phase in just a portion of the increase in assessed values or the rate at which they increased. If a municipality chooses this option, it must phase in at least 25% of either increase. The amount or portion the town phases in is called the "phase-in factor," and the town must uniformly apply it to all types of property.

Maryland

Maryland requires municipalities to revalue property every three years and to phase in any subsequent increase in assessed values during that three-year interim (Md. Code, Tax—Property, § 8-103). This phase-in is in addition to the tax credit available to homeowners whose assessments increase by more than 10%. Because the credit equals the amount above the 10% cap, homeowners pay no taxes on that amount (Md. Code, Tax—Property § 9-105).

Montana

Montana law requires municipalities to revalue property every six years and phase in any post-revaluation increases during that period at 16% per year (Mt. Code § 15-7-111). It also requires them to adjust the phase-in amount for residential property owners with incomes below $75,000 and whose taxes increased by at least $250. The adjustment varies depending on a property owner's income and the percent of increase in the property's assessed value (Mt. Code § 15-6-193).

FREEZING ASSESSMENT INCREASES: GEORGIA

Georgia's Constitution allows counties to exempt a portion of a home's assessed value from taxation as long as its owner resides there (i.e., homestead exemption) (Ga. Const. Art VII § II). At least 36 counties have used this authority to freeze homestead assessments at a base year when revaluations captured increases in assessed values (https://etax.dor.ga.gov/ptd/adm/taxguide/exempt/homestead.aspx).

ANNUAL LIMIT ON POST REVALUATION LEVY: DELAWARE

While the other states in this report limit the extent to which municipalities can tax post-revaluation increases in property values, Delaware limits the extent to which counties can increase property taxes after a revaluation. Property taxes can increase after a revaluation if property values go up after the last revaluation and the tax rate stays the same or increases. Delaware law limits post-revaluation tax increases to 15% of the amount raised during the year before the new values take effect (Del. Code Title 9 § 80002 (c)).

Attachment 1: Comparison State Property Tax Limits

State	*Assessment Limit*	*Levy Limit*	*Rate Limit*
Alabama			X
Alaska		X	X
Arizona	X	X	
Arkansas	X	X	X
California	X		x
Colorado	X	X	
Delaware			X
Florida	X		X
Georgia			X
Idaho			X
Illinois	X	X	X
Indiana		X	
Iowa	X		X
Kansas		X	
Kentucky		X	X
Louisiana		X	X
Maine	X	X	
Massachusetts		X	X
Michigan	X	X	X
Minnesota	X	X	
Mississippi		X	
Missouri		X	X
Montana		X	
Nebraska		X	
Nevada		X	X
New Jersey		X	
New Mexico	X	X	X
New York	X	X	
North Carolina			X
North Dakota		X	X
Ohio		X	X
Oklahoma	X		X
Oregon	X		X
Pennsylvania		X	X
Rhode Island		X	
South Carolina	X		X
South Dakota		X	X
Texas	X	X	X
Utah		X	X
Vermont		X	
Washington			X
West Virginia		X	X
Wisconsin		X	X
Wyoming			X

Source: Lincoln Institute of Land Policy, *Significant Features of the Property Tax* (http://www.lincolninst.edu/subcenters/significant-features-property-tax/)

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