

## A Basic Understanding of Your Real Estate Taxes

It is my basic premise that if we are to maintain on our current path of ever increasing real estate taxes, we will price many of our seniors and others living on fixed incomes out of their homes. They will simply not be able to pay their real estate taxes, maintain their homes, and live a lifestyle to which they are accustomed.

The purpose of this report is to try to give the average taxpayer a basic understanding of the current (far too) complex real estate tax system, as it relates to residential property. For simplicity, I have ignored the real estate tax issues relating to commercial, industrial and agricultural property.

First, I need to provide some definitions (please bear with me; we need to get into the weeds a little):

**Taxable Value:** This is simply your home's market value multiplied by 35% equals the taxable value of your home. For further illustrations, and calculations we will use the following taxable value.

**Calculation: \$100,000 home value x 35% = \$35,000 taxable value**

**You fill in \$ \_\_\_\_\_ x 35% = \$ \_\_\_\_\_ taxable value**

**Millage, or a "mill"** - Your property tax rate is defined in terms of mills. One mill is equal to one-tenth of one percent. (1 mill - .001) For example, a 1 mill levy for each \$1,000 of taxable property valuation would equal a \$1 annual tax. Another way to express it is a 10 mill levy will be 1% of your taxable value. Our \$35,000 taxable value home would pay \$35.00 in annual property taxes, assuming the levy is not subject to any reduction factors. (more on that later)..

**Calculation - \$35,000 / 1,000 x 1 mill = \$35.00 annual tax**

**You fill in \$ \_\_\_\_\_ / 1,000 x 1 mill = \$ \_\_\_\_\_ your annual tax**

Here is a chart to help illustrate the calculation:

<u>Number Mills</u>	<u>\$ per \$1,000 of taxable value</u>	<u>Expressed as a %</u>
30	\$30.00	3.0% ((30/1000) x 100)
10	\$10.00	1.0%
1	\$ 1.00	.1%

Please remember that you always have to determine your own personal taxable value to know the proposed levy's impact on your finances. When the levy is placed on the ballot the wording makes it look like it is not going to cost you very much. As they say, the devil is in the details.

**Inside Millage** – In 1911, the Ohio General Assembly enacted a law to allow a 10 mill limit on un-voted levies. This was later increased to 15 mills; but in 1934, the law was again changed back giving the local government sub-divisions (schools, cities, townships) the opportunity to collect a 1% tax (10 mills) on the true (taxable) value (market value of property x 35%). **You do not get to vote on that.**

The current rate charged for Lake County is 8.90 mills. That means that the Lake County commissioners can raise your taxes 1.1 mills (10 minus the 8.9) or \$38.50 per \$35,000 in additional tax annually, without you having any say in the matter. This tax can also increase as your home market value increases, and is never subject to any tax reduction factors (more on that later, I promise).

Here is the current Inside Millage breakdown for Lake County:

<b><u>Political Sub-Divisions</u></b>	<b><u># of Mills</u></b>	<b><u>% of Total</u></b>	<b><u>\$ per \$1,000</u></b>	<b><u>\$ per \$35,000</u></b>
Lake County General Fund	1.00	11.24	\$ 1.00	\$35.00
Lake Metroparks	.10	1.12	\$ .10	\$ 3.50
Concord Township General Fund	1.40	15.73	\$ 1.40	\$49.00
Concord Township Roads & Bridges	1.60	17.98	\$ 1.60	\$56.00
Riverside Local School District	<u>4.80</u>	<u>53.93</u>	<u>\$ 4.80</u>	<u>\$168.00</u>
<b>Total</b>	<b>8.90</b>	<b>100.00</b>	<b>\$ 8.90</b>	<b>\$311.50</b>

Maximum Tax Allowed – Inside Millage 10.00 \$ 10.00 \$350.00

What does all this REALLY mean? Well, it means that all property owners have a potential annual fixed tax of \$10.00 for every \$1,000.00 of taxable value. If you own a \$500,000 home, you are looking at a potentially minimum annual tax bill of \$1,750.00 without having any say in the matter. Remember that this can increase as your property value increases.

It is important to note the Lake County’s inside millage is currently 1.1. Our specific district, which includes the following political sub-division: Lake County, Riverside LSD, Auburn JVSD, Concord Township, Lake County Library District, and the Lake County Financing District (another school levy) adds up to 8.9 mills. There are 32 different districts in Lake County, meaning 32 different combinations of political units. The current total of 8.9 total inside mills is the highest in Lake County and accounts for the total in the majority of the districts. Any of these political units (not just the County Commissioners) may increase inside millage, however, they must ensure that their proposed change will not push any of their districts over the 10 mill limit, including districts that reside in overlapping counties. **(per the State of Ohio Tax Equalization Division)**

Calculation: \$500,000 x 35% = \$175,000 / 1000 = \$175 x 10 mills = \$1,750.00 per year.

You might say, well that is no big deal. Let us see your reaction after we talk about “Outside Millage”.

**Outside Millage** – These are additional taxes that are subject to the vote of the taxpayer. Unlike the Inside Millage these taxes **MAY** be subject to tax reduction factors. (Buckle up, the ride is going to get a little bumpy)

Here is the current Outside Millage that taxpayers voted for combined with the Inside Millage:

<b><u>Political Sub-Divisions</u></b>	<b><u>Inside Millage</u></b>	<b><u>Outside Millage</u></b>	<b><u>Total Millage</u></b>
<b><u>County:</u></b>			
General Fund	1.00		1.00
ADAMHS (Drug, Alcohol, Abuse)		1.60	1.60
Deepwood		4.90	4.90
Narcotics Agency		.30	.30
Children’s Services		.70	.70
Forensic Crime Laboratory		.30	.30
Senior Citizens		.50	.50
Lake Metroparks	.10	2.70	2.80
Lakeland Community College		<u>3.80</u>	<u>3.80</u>
<b>Total County</b>	<b>1.10</b>	<b>14.80</b>	<b>15.70</b>
<b><u>Concord Township:</u></b>			
General Fund	1.40		1.40
Roads and Bridges	1.60		1.60
Fire Protection		2.70	2.70
Roads and Bridges		1.70	1.70
Safety Forces		<u>4.00</u>	<u>4.00</u>
<b>Total Concord Township</b>	<b>3.00</b>	<b>8.40</b>	<b>11.40</b>

**Riverside Local Schools:**

General Fund	4.80	42.50	47.30
Debt		1.92	1.92
Emergency – 2009		4.59	4.59
Permanent Improvements		<u>2.50</u>	<u>2.50</u>
<b>Total Riverside Local Schools</b>	<b>4.80</b>	<b>51.51</b>	<b>56.31</b>

**Lake County Library District:**

General Fund		1.00	1.00
Debt Service		<u>.80</u>	<u>.80</u>
<b>Total Lake County Library District</b>	<b>.00</b>	<b>1.80</b>	<b>1.80</b>

**Auburn Joint Vocational:**

General Fund	.00	1.50	1.50
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**Lake County Financing District:  
(additional school funding)**

General Fund	<u>.00</u>	<u>4.90</u>	<u>4.90</u>
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<b>GRAND TOTALS</b>	<b>8.90</b>	<b>82.71</b>	<b>91.61</b>
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**ANNUAL GROSS REAL ESTATE TAXES (\$100,000 MV X 35% / 1,000 X 91.61)      **\$3,206.35****

**Real estate taxes are paid 50% in January and 50% in June of each year.**

Seems simple doesn't it? Sorry, but life in the real estate tax world is not that simple. There are "tax reduction factors" (TRF) that **MAY**, or **MAY NOT** impact the Outside Millage Rate.

Let's first focus on understanding the types of levies that we may be asked to vote on.

There are three basic types of real estate taxes that can be levied against the residential and commercial properties: (1) Bond Levy, (2) Emergency Levy, (3) Operating Levy

**Bond Levy:**

This levy is used when a school or any other political sub-division needs money to pay for the purchase or the construction of a building. It is for a fixed amount, to be collected over a fixed period of time.

For example, the school board needs \$5 million to build a new school to accommodate the influx of children into the district, or the county commissioners determine that the county needs \$40 million to build a new administration building to meet the ever growing needs of the government bureaucracy.

The school board or the county commissioners will ask the County auditor's office to determine the millage required to collect the needed funds. The auditor will then review the existing tax base, and then will estimate the millage required to meet the specific needs, and the levy is placed on the ballot. Then the voters get to decide.

**Emergency Levy:**

This type of levy is only available for schools. This occurs when the political sub-division determines that for some reason they will not be able to meet their operating expenses (salaries, utilities, transportation, etc). It would be a fixed amount and for a fixed time, usually for 5 years, and can be renewed by the vote of the taxpayers.

**Operating Levy:**

This levy covers the normal, everyday operating expenses of the political sub-division.

**A Word of Caution is needed here:**

You must be aware of the words “renewal”, “renewal with increase”, and “continuous”. If you see the word “renewal”, it means that the millage requested is the same as you are currently paying. “Renewal with increase” means that you will pay more than what you had been paying previously. If you see the dreaded word “Continuous”, that means that the political sub-division will be able to continue **FOREVER** taking money out of your pocket, without you having another vote on the levy.

**Replacement Levy:**

Although they may seem like a renewal levy, they are treated quite a bit different. They lose the compounded reduction factor (see TRF explanation below) that the levy to be replaced has received over time and they, after 2013, lose their rollback eligibility. Also, new levies, or any increase in millage of a renewed or replaced levy are brand new and do not benefit from rollback eligibility. (This means that the State of Ohio will not help in paying your real estate taxes – you will not get the 10% or 2.5% credit from the State.)

Now that you understand millage and levies, let’s tackle the other remaining factors that impact our taxes.

You are doing great, please keep reading.

**Tax Reduction Factors (TRF):**

In 1976, the Ohio General Assembly enacted House Bill 920, which introduced “reduction factors” to calculate effective tax rates. The intent was to eliminate from certain voted levies changes in revenue that may occur when property values increase as part of the required reappraisal every six years, or at the three year updates.

The only type of levies that are impacted by the TRF are those Outside Millage levies (voted on by the taxpayer) covering current operating expenses, and permanent improvements. Bond levies and emergency levies are enacted to generate a **fixed** amount of revenue; and are, therefore, not subject to the TRF. All Inside Millage (fixed by law) are not subject to the TRF.

**From the Lake County Auditor’s website:**

**“Lake County has more than 109,000 separate parcels of real estate property. It is the duty of the Auditor to see that every parcel of land and the buildings thereon are fairly and uniformly appraised and then assessed for tax purposes. A general reappraisal is mandated by Ohio Law every six years and an update every three years (called a triennial update). The office maintains a detailed record of the appraisal on each parcel in the County, and these records are open for public inspection.”**

**\*\*\*\*\*Not so good news – Lake County is scheduled for reappraisal in 2018!!!\*\*\*\*\***

If the Auditor determines that property values have increased, your taxes on the Inside Millage will go up without a vote. You can dispute the increase in appraisal, but, undoubtedly, you will receive some tax increase.

If the property values go up after the triennial update, the State Auditor’s office will make adjustments based on the type of levy passed. Again, reduction factors are applied to only certain outside millage tax levies to calculate the effective tax rate. Reduction factors decrease the tax rate as taxable values increase, and increase the tax rate as taxable values decrease. The political sub-division cannot benefit on those two types of levies, if the increasing market value will result in more taxes collected than was originally requested by the levy. Conversely, if there is a decline in market value, the reduction factor will be reduced so the political sub-division will get the amount requested by the levy. (Remember the tax man always get his money)

So we now have a formula of ((# of mills) x (1-TRF) x (Market Value x .35)) = (**final** calculated property taxes).

*But wait, there is more.....*

However, final does not mean really final. There are three tax credit programs that **MAY** or **MAY NOT** be applied to each political sub-division tax.

### **Tax Credit Programs:**

**Homestead Exemption Program** - (Enacted in 1971, amended in 2007) Homeowners age 65 and over and/or disabled are eligible to reduce their true value of their home by \$25,000. The cost of this credit is reimbursed to schools and local governments by the State.

**10 Percent Credit (Rollback) Non- Business Credit-** (Enacted in 1971) All owners of real property (that is your home) that is not used in any business other than farming have their tax bills reduced 10%. The cost of this credit is reimbursed to local governments by the State.

**2.5% Owner Occupancy Credit - (Enacted in 1979)** All owner occupied homes receive a reduction in tax bills of 2.5% in addition to the 10% rollback. The cost of this credit is reimbursed to local governments by the State.

Recently, the State of Ohio has lowered the State funds being sent to Local Governmental Entities. This will reduce or eliminate the credits that we previously enjoyed. It means you will pay more real estate taxes.

### **Assessments:**

There is one additional item that can increase your real estate tax. They are called "special assessments". They apply to your local developments to cover the costs of lighting and other improvements, such as, sewer and sidewalk financing that you agreed to pay.

### **What are factors that can increase your property taxes?**

1. County commissioners and any other political sub-division can increase the inside millage to the maximum 10 mills without a vote of the taxpayer.
2. Increasing property values will automatically mean an increase for the Inside Millage tax. Remember these are not subject to any tax reduction factor calculations (TRF).
3. Political sub-divisions will continue to ask for increased amounts to cover social needs.
4. Increasing amount of illicit drugs into our community create increased needs for social welfare.
5. Unfair illegal immigration puts a tremendous strain on our welfare system, and schools.
6. Unreasonable expenditures by political sub-divisions will continue the need for increased taxes.  
(I will be demanding empirical proof that they need more money, and will not just accept any emotional or "feel good" reasons.)
7. Lowering of State fund to local governmental entities will reduce the credits currently being offered.
8. Residential and agricultural valuation are considered class I for reduction factor purposes, changes to mineral, industrial, and commercial values (class II) will not have an effect on class I. However, changes to agricultural valuation will impact the residential valuation since it is in the same class I.
9. Fixed sum levies will be adjusted accordingly (i.e. millage will increase or decrease to generate the same amount of collection based on the changes to values).
10. Fixed rate levies may be increase the next time the levy is set to expire and needs to be renewed.
11. Fixed rate levies can also be reduced to millage for collection proposed by resolution, and can also be increased back to their original approved amount by resolution.

**What can we do to lower our taxes?:**

There is a governmental agency known as the Lake County Board of Revision that we can appeal to have our property valuation reduced. Here is their website for the appropriate form and instructions.

<http://www.lakecountyohio.gov/auditor/Forms.aspx>

Their office is currently located on the second floor of the County Administration building. The address is 105 Main Street, Painesville, Ohio 44077, and they are normally open from 8:00 am to 4:30 pm. However, here is the warning you will get from them in person and on their website.

**NOTICE:**

*Please be advised that the Complaint Against Value Form (DTE1) is only available during the filing period of January 1 through March 31 of each year.*

They removed the form because they got tired of people submitting the form before January of each year. It should be available by January 1<sup>st</sup> of each year.

You may have to be prepared to battle; political sub-divisions do not relish giving up tax money. Do not let them intimidate you, stand up for your rights, and your money.

**Summary:**

I have yet to find a single person that knows how their property taxes are calculated. I was in that same category, until one day I woke up and said "The days of trusting are over." The average residential taxpayer does not have any lobbying group that is looking out for their best interest. So we must ban together, share information, and support each other in our quest for lower real estate taxes.

Thank you for reading to the end. Hopefully, we have shed some light on a very complex issue. Please remember to stay vigilant. Do not automatically accept any real estate tax increase without doing your due diligence and insist that the political sub-division prove that they need your money.

We are here to help.....please remember that freedom is not free....silence is not an option!