Property Tax Assessment
Reassessment has taxpayers reeling from sticker shock

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Sticker shock has hit residents in several South Carolina counties, including Pickens and Spartanburg, in the wake of their recent required five-year property reassessment. This problem is primarily a matter of residential property, since most other kinds of property are assessed annually. While those who saw modest increases in property values are reasonably contented, those in highly desirable areas (like lakefront property) or with scarce resources in high demand (in-fill vacant lots in built-up areas) are outraged at the figures recently mailed to them by the tax assessor. In a few cases, tax bills will be high enough to force owners to sell their vacant land or even their family home. At the opposite extreme, those who saw values decline are torn between outrage at the insult and pleasure with over the expected lower tax bill. Is there a better way to handle reassessment?

Actually, what we are seeing *is* a better way of handling reassessment. Reassessment used to be required every seven years or whenever the ratio of actual sales prices to assessed value got too far out of line, but in practice this requirement was not strictly enforced. In 1994, the legislature approved a bill that put counties on a staggered schedule of five year reassessments. By the year 2000, if the schedule is adhered to, all counties will have been through a reassessment within five years, and the cycle will begin again. Shorter intervals between assessments produce more current values and less sticker shock. Annual reassessment would be even better, but the cost is prohibitive.

The first thing that elected officials should do is to remind taxpayers of the requirement that the total tax bill for real property cannot go up by more than the rate of inflation in the year after reassessment, except for new construction and a few other small adjustments. So in counties where assessments have risen dramatically, the average taxpayer will see little if any change in his or her real estate tax bill this fall. The tax burden is not being increased, it's being redistributed.

But beyond that immediate damage repair, there is a larger and more fundamental question about how real property is assessed at the county level—homes, land, commercial and rental real estate. (Autos are another matter, because there is a lively market in used vehicles, which provides a solid foundation for determining their taxable value.) The property tax is the only major tax that is levied on a hypothetical or estimated value rather than a real flow of funds. The Department of Revenue doesn't have too much trouble confirming your reported income from other sources and levying a tax on that amount. The sales tax is figured automatically as 5% (6% in local sales tax counties) of your purchases. There's not much ground for disputation here.

But a piece of real property can go unsold for decades or generations, so there is no market exchange of the property between buyer and seller to provide a clear measure of its value. Instead, a small and costly army of assessors must make site visits, measure property, follow up on building permits, estimate square footage and replacement costs for structures, and check on sales values in each area. Then, in more sophisticated areas, someone runs regression equations that factor all this information into determining the market value of each of the tens or hundreds of thousands of units of real property in their jurisdiction. In less sophisticated jurisdictions, a judgment is made on how all this information adds up for each piece of property. It's time-consuming, slow, expensive, and it still doesn't produce satisfactory results.

Other states are experimenting with a variety of techniques for determining that value. Econo mists have suggested, only partly in jest, that the simplest system is one of self-assessment—with a twist. When you report your estimate of the value of your property to the assessor, you also agree to sell it to any willing and ready buyer at that price plus 10% over the next 90 days! That system might compel honesty in property valuation, and greatly reduce the army of assessors and clerks that administering the property tax now requires.

One of the more interesting actual innovations in assessment comes from California. A lesser known part of Proposition 13, passed in 1978 to limit increases in property taxes in that state, created an assessment system for residential property known as acquisition value. Beginning in 1979, assessments automatically went up 2% a year on all residential property that was not sold during the current year. If it was sold, it went on the books for the sale price. This system created huge inequities—identical properties side by side could carry very different assessments depending on how recently they had been sold. But it vastly simplified the assessment process, and for a change, it actually favored the poor and the immobile! The 2% annual increase is arbitrary, and might best be adjusted annually on a county-by-county basis, but this approach has some real promise for the most difficult part of property tax assessment, residential real property.

Self-assessment and acquisition value are not the only possible answers to the assessment di lemma. But they both represent some creative thinking about an age-old problem of determining a market value when no market transaction has occurred. Until something better comes along, both these ideas are worth exploring.

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