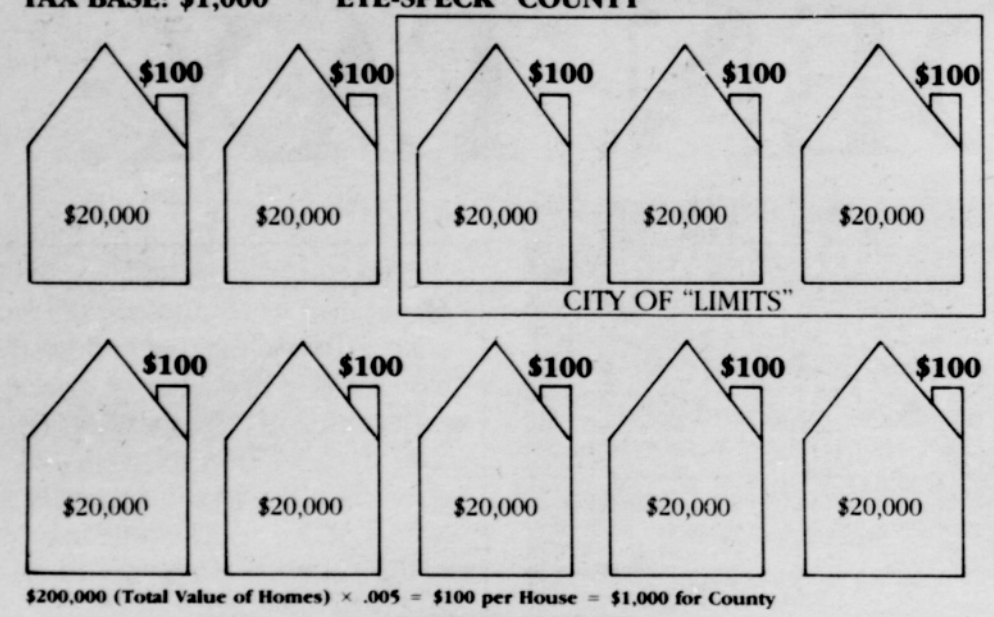
The Hidden Tax



Drawing No. 2A

arrive at total tax for each property owner in our county of $100. ($20,000 x .005 = $100; or .5% of $20,000 = $100; AND 10 x $100 = $1000, the total levy.)

(see above drawing)

The elected officials were happy with this explanation until the second year of their operation. In the second year, three important things happen. Let's try to see what each one does to the tax bill of the typical property owner.

First, the county's tax base grows by 6% to $1,060. IF NOTHING ELSE CHANGES IN EYE SPECK COUNTY, then when Smart Pencil is consulted, she will tell the assessor to take all the value of the property in their county — which would still be $200,000 — and divide into the amount of money we are allowed to raise — which is now $1,060 — to get the rate we should charge each property owner. In this second year we get: $1,060 divided by $200,000 = .00530.

(see drawing below)

This is the rate for each dollar of assessed value. Our old-fashioned assessor prefers to express this as $5.30 for each $1,000 of assessed value.

An important lesson here is that under this system of taxation, if there is no growth in the total assessed values in the county, then automatically, tax bills increase as government's needs increase.

We said earlier that three important things happened in the second year; so far we have looked at only one of these, namely, that the government needed more tax money to carry on its mission, and we supposed that everyone's assessed value remained flat at $20,000. But suppose that in the second year the values of the property DIDN'T remain equal. Let's suppose some enterprising person, Mrs. Calories, decided to turn her house into a cookie factory. Everyone loved Mrs. Calories cookies. Her business in the first year prospered and the property, which is now commercial instead of residential, doubled in value. That made almost everyone happy, except the elected officials of Eye Speck county, because now, things being UNEQUAL, they had to figure out a new rate. Fortunately, Smart Pencil had her high school diploma in math and she was quick to figure out that since the total assessed value in the county was now $220,000, and the tax base was $1,060, that the new tax rate was: $1,060 divided by $220,000 = .00481818.

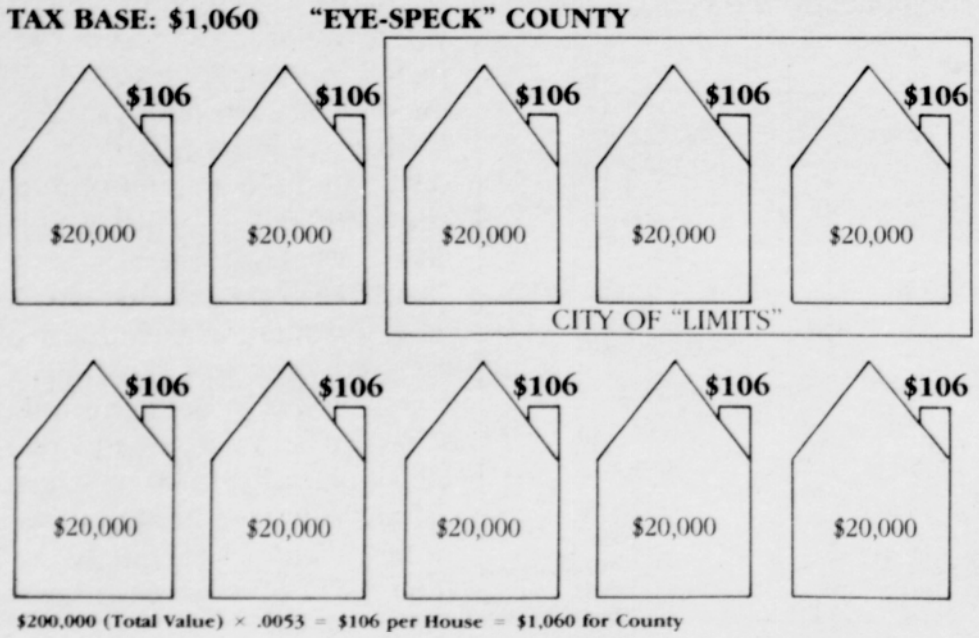
When she gave this result to the assessor, he explained that the county could not afford a very expensive computer and he could only carry five digits, so he had to round Smart Pencil's answer up to .00482 for each dollar of assessed value. In traditional terms, the rate was $4.82 per $1,000 of assessed value.

The nine property owners whose assessed values did not increase were delighted. Their tax bills were .00482 x $20,000 = $96.40, down from last year's $100. Of course, Mrs. Calorie's bill looked a little different. Since her assessed value was $40,000, her bill read .00482 x $40,000 = $192.80. However, the good Mrs. Calorie had no complaints. Business was excellent and she realized that the renovation to her property to convert the house to a cookie factory made her property twice as valuable as her neighbors'.

(see drawing No. 3A)

This brings us to a second important lesson: Under this system of taxation, growth in assessed values can bring the tax rate down and lower the tax bill for property that doesn't increase in value. So even though the county's tax base grows at 6% each year, new construction in the county should keep individual tax bills from growing that fast and might even allow some tax bills to go down.

The story could have ended here with everyone living happily ever after. But some folks won't leave well enough alone, and that brings us to the third important event that happened in the second year of Eye Speck county: the imaginative City Council of the



Drawing No. 2B