<u>GAAO and Assessment Caps</u>

Caps assume “one size fits all” and any area that experiences a value increase greater than the capped rate will pay taxes on less than 100% of the FMV. Conversely, areas that experience value increases at a rate less than the capped rate will pay taxes on 100% of FMV. Ultimately, these lower valued properties will see tax increases due to the need to increase millage rates in order for the local jurisdictions to provide basic services. The gap between these classes of property will only widen with each reassessment. For the majority of property owners, voting to limit assessment increases will actually increase their tax burden over the long haul.

> Example: In a certain county for the 2008 digest, only 20% of properties received an increase of more than 3% yet the digest went up almost 6% overall. Because properties were valued at fair market value, the county and schools did not need to raise the millage rates. However, with a 3% cap, the digest growth would be limited, and yet the county and schools would still need the same amount of funds to support their budgets. Therefore, an increase in the millage rates is due, and the 80% majority is now making up for the portion the 20% are not paying equally because of capping assessments.

Fairness, equity and uniformity will no longer exist! Let's say you have two identical houses side by side in a neighborhood valued by the Tax Assessors Office at approximately $150,000. If one of these houses sells for $200,000 in an arm's length transaction, this house bill allows the Tax Assessors Office to place a fair market value on THIS home of $200,000. However for the identical house next door the value may only go up by 3% or $4,500 which produces a value of $154,500. This type valuation creates a tax SHIFT from one neighbor ($154,500) to another ($200,000).

Retirees beware! Downsizing may increase your tax burden. Retirees who have owned their home for many years and who are looking to purchase a smaller home may be looking at similar taxable values between the new home and the existing home due to this new tax law. When a retiree purchases a new home (smaller than their previous home), the retiree will be paying taxes on the new fair market value of this home, and not on a previously frozen or stagnant value assessed to the prior owner. Again a tax SHIFT to the new owner of this home.

If assessment caps are placed on commercial property, this course of action will likely prevent commercial property from ever being assessed at fair market value in the future. Capping assessments on commercial property will likely lead to the creation of real estate trusts or other shelters to shield the legal transfer of property for tax purposes. Many commercial properties will be transferred as part of the company portfolio but no real estate transaction takes place. This practice will create even more of a tax SHIFT from commercial property to residential property.