

Why Use Market Value For Property Tax Assessment?

From IAR's CEO Karl Berron:

"We have received questions in recent days regarding the use of market value as the standard for property tax assessments. Given the struggles that local assessors have faced in achieving uniformity in assessments, I can certainly understand why REALTORS® seem to be wondering whether this is the appropriate assessment standard. But let's look a little deeper.

First, let's remember that a properly functioning assessment system should apportion the tax burden in a uniform manner, so that each taxpayer pays their corresponding share based on property wealth. Disparities in assessments mean that some taxpayers pay more than their fair share of the tax burden, while others pay too little. This phenomenon is what led to the court challenge of Indiana's system in the 90's, and the most recent round of assessments have highlighted it once again.

But, do these disparities arise because we use market value as the assessment standard? I would argue not. In fact, market value provides the scorecard by which we measure the accuracy of assessments. If one thinks about it, the only way we know the current system is not uniform is because we compare the actual assessed values that we observe with what we believe the market value of the property to be.

Without sounding flip, the question arises, if we didn't use market value as the standard, what else would we use? A market value represents the most accurate measure of a property's worth. The impact of using a non-market value standard would be that government officials would determine value by legislative or administrative action. In effect, we would lose our "scorecard".

I would argue the more basic problem with the system is the archaic local government system that underpins it. We have a system based on 1008 township assessors, each with their own "opinion" of value, many with inadequate training in the concepts of market value. As elected officials, they often see themselves as taxpayer advocates reporting to voters, rather than a dispassionate technician applying sound appraisal techniques. This dispersed decision making process makes it difficult, if not impossible, for the state to achieve uniform results. Imagine your firm trying to deliver uniform real estate services in 1008 units throughout the state, while the head of those units report to someone other than you.

So, our challenge in achieving assessment uniformity is to eliminate township assessment, improve training, enhance data gathering and application, and measure results. In short, assessments should be done more like real estate professionals do them every day. But we need to remember that in order to keep score, we need a scorecard."