PROPERTY TAX ASSESSMENT

Process, Valuation, and Exemptions

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INTRODUCTION

Property taxes are the largest source of revenue for the Municipality of Anchorage (MOA). Part of the MOA Treasury Department’s mission statement states: “Tax revenues collected provide primary funding for city services of benefit to Anchorage residents, businesses and visitors–examples of city services funded through local taxes include: public safety, education, roads and transportation, health and human services and cultural and recreational services.”¹

Determining the actual amount of property tax revenue that will be collected each year is a multi-part process. First, all real and personal property must be given an assessed value. Then the Assembly determines the amount of revenue needed to maintain services in each tax district. Using the amount of revenue needed for services as a baseline they set the mill rate for the year. Assessed value is multiplied by the mill rate to give the actual amount of tax revenue that will be collected from each property owner.

The property assessment process is a complicated one, and often misunderstood. Property assessment, setting the mill rate, determining exemptions, and collecting taxes are all distinctly separate tasks processed by different departments.

In the pages that follow we will provide a broad overview of the entire property tax process and its importance as a revenue source. We will then provide more detailed information about two parts of the process: property assessment and tax exemptions. We will attempt to not just explain the process but point out the challenges, misconceptions, recent changes and areas for additional consideration.

Anchorage’s Reliance on Property Tax as a Revenue Source

Until recently property taxes were consistently increasing as a percentage of the MOA’s total revenue. After reaching a peak of over 75% of total municipal revenue in 1998, the trend has started to reverse itself. The upward trend that started in the 1980’s can be attributed to a decline in state revenue sharing. In 1982 state shared revenue was almost 40% of the MOA’s total revenue; by 2003 it was only 4%.² For 2004 there is no revenue sharing because Governor Frank Murkowski approved the deletion of the State’s Revenue Sharing and Safe Communities programs in 2003.³

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¹ Municipality of Anchorage, Treasury Department, www.ci.anchorage.ak.us/treasury.
With the decreases in revenue sharing the MOA has been at work over the last few years trying to diversify its revenue sources. Revenue streams such as the hotel/motel bed tax, tax on tobacco products, and program-generated fines and fees have been added or increased. The graph below shows the current distribution of MOA revenue sources.

As illustrated above, local revenue now also comes in form of program fines and fees, intergovernmental charges, federal and state-shared revenue, interest from investments and other taxes which include automobile registration, tobacco tax, aircraft registration, motor vehicle rental tax and the hotel/motel bed tax. However, property taxes are still the largest source of revenue for the MOA, at over 60% of the total local government revenue for 2004. This makes them the most important source of revenue for the MOA.
The Role of Mill Rates in Property Taxes

In Anchorage, property taxes are an ad valorem tax, which means “taxpayers pay a flat rate per dollar value of taxable property they own.”\(^4\) This flat rate—also known as the mill rate or mill levy—equates to one dollar of tax for every $1000 of assessed property value. The MOA utilizes a “service area” concept to determine citizens’ mill rates. Under this system each MOA resident pays taxes according to the extent of public services received as decided in the voting process. Such public services may include education, road maintenance, fire and police protection, public health, libraries, and emergency medical services. While some area-wide services are provided to and funded by taxpayers throughout the MOA, other services are limited to smaller geographic areas.

Mill rates, and therefore property tax rates, are calculated each year based on two pieces of information: the assessed value of property in a given service area and the level of revenue required to sustain that service area. According to MOA guidelines, the mill levy for each service area is calculated by dividing “the amount of taxes to be collected in that service area by its assessed valuation. The answer is then multiplied by 1000 to get the mill levy for that service area.”\(^5\) The resulting mill rate represents the number of dollars per $1000 that must be given in tax revenue for that service. For example, a property assessed at $100,000 faced with a tax of 5 mills for fire protection service would owe $500 that year for fire protection. All applicable mill levies for a given property are then summed to determine the property’s overall mill rate, and thus, level of taxation. The Anchorage Assembly recalculates mill rates every year according to the above procedures. The graph below depicts the average mill rate in Anchorage over time. As illustrated, since assessed property values have increased, the overall mill rate has actually decreased.

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\(^4\) MOA 2004 Proposed General Operating Budget, 2003
\(^5\) Id at p.4.
THE PROPERTY ASSESSMENT PROCESS

Overview

The Municipality of Anchorage's Property Appraisal division, headed by the Municipal Assessor, is responsible for locating, identifying and valuing all taxable real and personal property within the Municipality, in order to provide a fair and equitable basis for taxation.6 The division maintains a description of close to 100,000 parcels of real property. In addition, the division maintains the maps showing the property ownership and tax districts for the MOA.

The MOA is required to physically review all property every six years. This requires the Assessor’s office to review, inspect, and re-inventory real property and its specific attributes. The division is also required to make independent estimates of property value once a year. Due to strong real estate markets and rapidly changing property supply and demand, independent estimates help ensure increased frequency of assessments that tax rates are accurately matched to current property value.

Over the past ten years, the division has seen a slow decline in the number of properties that are reviewed each year. A lack of sufficient staffing has been the primary factor contributing to this decline. For example, in 2003 there were 13 residential property staff members who were responsible for the annual value determination of over 84,584 parcels. Of the 13 staff members on board, only eight were appraisers. These appraisers were responsible for the physical inspection of 14,100 parcels, or approximately one-sixth of the total number of parcels. This equates to a responsibility of 1,763 per appraiser. This task has proved to be overwhelming for division appraisers over the past several years, leading to a current backlog of 28,825 unfinished inspections.

In 2004, the division itself made organizational changes by hiring nine new staff members and realigning job descriptions. With new appraisers on board, the division is expected to accomplish an estimated 133% of physical inspections for 2004. This means that the division will be able to complete inspections that have been backlogged from previous years. As a result of their recent staffing increase, the division is expecting to start chipping away at their backlog of 28,825 pending inspections.7 The chart below illustrates the effects of past insufficient appraisal manpower and the predicted results of the division’s recent personnel additions.

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6 MOA Property Appraisal Division. www.muni.org/finance/paindex.cfm
Types of property in the municipality of Anchorage are currently divided up into two main categories. The two largest taxable categories are real and personal property. Real property is defined as land and any improvements to land such as buildings, structures, and fixtures. Real property is further classified as residential or commercial. Personal property is any property other than real property. This includes mobile homes located in mobile home parks and single-wide trailers on private property but not on a permanent foundation. Business personal property is composed of tangible assets for business use such as inventory, supplies, furniture, fixtures, equipment, leasehold improvements, and rental furnishings.  

**Real Property Valuation: Residential**

For 2004, 82,700 properties were assessed for a total value of $13.4 billion, a 10.7% increase from 2003. Real residential property is currently valued by using the comparable sales approach. This is defined under Alaska statutes 29.45.110(a) as the estimated price the property would bring in an open market, and under the then prevailing market conditions in a sale between a willing seller and a willing buyer both conversant with the property and with the conversant general price levels.

The comparable sales value is determined by using a number of methods including voluntarily disclosed sales data and physical inspections of the property. The State Assessors’ 2003 report included a ratio study of five classifications of real personal property in Anchorage. The purpose of this study was to determine how equitable the Assessment Department was in determining property value. The results of this study showed that the assessments for lower valued personal properties had a disproportionate co-efficient of dispersion, which is an indicator of non-equitable assessments. The

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8 Municipality of Anchorage, Department of Treasury, www.muni.org/treasury/prop_faq.cfm
primary reason for this inequity was determined to be a lack of physical inspections on lower-valued properties.\(^9\) It is assumed that the increased number of assessors will have a positive effect on this trend.

**Real Property Valuation: Commercial**

For 2004, 10,400 commercial properties were assessed for a total value of $5.8 billion, a 13.7% increase from 2003. Real commercial property is usually assessed using two approaches: cost and income. The cost approach estimates the cost for materials and labor to replace the property, less depreciation. The income method uses the amount of income a property generates in rents minus operating expenses to determine value. The market value approach is occasionally used but it is more difficult to apply because commercial property does not sell often, therefore it is hard to determine what price it may bring in the market.

Commercial real property, like residential property, must be physically re-inspected every six years. Complex commercial valuations on properties such as large hotels and shopping malls are particularly difficult and this may pose a challenge for the assessor’s office which has lost some of its more senior commercial property assessors.

**Trends in Real Property Valuation**

There have also been complaints in recent years from residential real property owners that they bear an unreasonable amount of the tax burden. Over time, residential properties have come to account for a significantly larger part of tax revenues.

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The trend is continuing, for 2004 the total assessed value of commercial real property was $5.8 billion compared to $13.4 billion, in residential real property.

A 2000 report from the Institute of Social and Economic Research gives several possible reasons why commercial valuations have not kept pace with the growth in the residential sector. The primary reason is that the commercial assessed value per worker has fallen for the last fifteen years.\(^\text{10}\)

This can be seen as an indicator that the commercial sector overall is experiencing less growth than the residential market. There are several possibilities for this. First, a large portion of the economic activity in the city is exempt from paying property tax. This includes some of the largest employers such as the military, federal, state and local government. Second, economic analysis has shown that the jobs added to the economy in recent years are low-wage and in labor-intensive industries. For example the real property value per employee is likely to be higher in the petroleum industry than in retail. Many new jobs are also self-employment in nature, where the individuals work out of their homes. Therefore, new jobs are not adding as much to the commercial property tax base as they once did.\(^\text{11}\) In addition, increased commercial construction leads to increased competition and less profits for commercial buildings. One example of this is the hotel industry. Many new hotels were built in the MOA last year. As a result, overall hotel value fell by 3% because they had more vacancies and therefore less income.\(^\text{12}\)


\(^{11}\) Id. at 16-18.

Personal Property Valuation

Personal property is any property other than real property. Personal property includes mobile homes in mobile home parks, or other property not owned by the mobile home owner, or single-wide trailers not on a permanent foundation but still on private property. Business personal property is composed of tangible assets, other than real property, for use in a business. Taxable business personal property includes, but is not limited to, inventory, supplies, furniture, fixtures, equipment, leasehold improvements, and rental furnishings. Assessed business personal property totals nearly $2 billion annually.13

Personal property is not inspected like real property. Instead, holders of personal and business personal property must complete and return a form listing all personal property owned, possessed or controlled. The assessor’s personal property division reviews each return, determines an assessed value and notifies the taxpayer of that value.14

Having transferred the personal property division back under their control effective January 1, 2004, the assessors’ department is working on a number of ways to streamline the process. The examiners’ estimate that over 50%, and in some cases 75% of their time is spent processing returns, with nearly half of them being small-value accounts. Currently the office is working on an e-filing process which is expected to lower costs and free up staff time for other duties.15 Another time saver recommended by the State Assessor is the exemption of all accounts below $5000. The State Assessor estimates that exempting accounts below $5000 would not detrimentally impact the MOA’s revenue generation, but it would free up more staff for audits of larger accounts.16 Currently over 8,000 of the municipality’s 16,239 personal property accounts have a value of under $5000 and they generated only $156,752 in revenue.17

Challenges in Current Property Valuation

Mobile Home Valuation

Mobile home valuation is a particular challenge for assessors. Currently mobile homes are valued using two different methods. If the mobile home or single wide trailer is on a permanent foundation on property owned by the owner it is considered real property and assessed as such. If the mobile home is located in a rented space, or a single-wide trailer is not on a permanent foundation on the owner’s real property, it is assessed as personal property.

The methods of valuation for real and personal property differ. This means that each method produces a different value. The State Assessor has determined that this method is inefficient and produces inequities between property owners.18 He has suggested that

13 MOA Treasury Department, www.muni.org/treasury/prop/faq.cfm
14 Ibid.
16 Id. at p.17.
17 Id. at Appendix, p.2.
18 Id. at p. 9.
the valuations for mobile homes classified as personal property should be completed by the real property department. It would not be necessary to change the classification of the property, only the valuation process. All inspections, reviews and any appeals would be conducted by the real property department. 

Leasehold Interest Assessments: Possessory Interest

“Possessory Interest” may be charged whenever there is a private interest that leases or otherwise has use of a property owned by a tax-exempt entity. Article IX, Section 5 of the Alaska Constitution reads, “private leaseholds, contracts or interests in land or property owned or held by the United States, the States, or its political subdivisions, shall be taxable to the extent of the interests.” Although charging rent and possessory interest tax may seem like double taxation it is not. Government entities are not paying any taxes at all on their property and the rents charged to lessees reflect this. Private property owners normally factor in property taxes when determining rental rates.

Possessory interest is charged from lessees in addition to rents because they are receiving the same services and benefits (police, fire, roads and schools) that other taxable property owners enjoy. The amount of possessory interest charged should be equal only to the amount of services and benefits received.

Anchorage currently uses two different methodologies to determine possessory interest: rent savings and reversionary. The rent savings method establishes value on the property only if the rent paid is below the prevailing market rent. If the rent paid is at or above the prevailing market rents, no value is established. The “reversionary” method establishes assessed value based on the full value of possession or use of the property. Anchorage is the only entity in Alaska that uses both methods. On three separate occasions the Alaska Supreme Court has implicitly preferred and upheld the reversionary method. The State Assessor also prefers this method and feels that Anchorage could capture more revenues and reduce inequitable taxation through exclusive use of the reversionary method.

Lack of Mandatory Disclosure of Real Estate Values

Anchorage does not require real estate sales prices to be reported. However, the appraisal division does mail out a sales questionnaire asking buyers and sellers to voluntary disclose the price of the sale. According to Anchorage’s Municipal Assessor, Marty McGee, “Many people respond, and that’s where the city gets the information for comparable sales.”

The Office of the State Assessor believes a mandatory sales disclosure law would be a beneficial tool in assisting with the assessment of properties with few sales. Currently,

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19 Id. at p. 17.
20 http://www.assessor.saccounty.net/possessory-interests/possessory.html
23 Id. at p. 9.
35 states have a mandatory sales disclosure.\textsuperscript{24} Such disclosures increase the ease of obtaining information on changing property values—both enhancing the efficiency of assessment personnel and accelerating the time it takes to get new construction into the real estate tax framework. It is important to note that should Anchorage move to a mandatory sales disclosure the number of assessment personnel needed would not decrease. Rather, it would primarily provide added data to be analyzed and cause value estimation to be more reliable.

**Recent Changes**

**Property Appraisal Division Website**

The appraisal division created a website in 2004 where citizens can check information about their property’s appraisal and find answers to their questions without direct help from assessor office personnel. The website provides answers to the most frequently asked questions and includes property descriptions for all taxable pieces of residential and commercial property.

**The Property Owner Appeal Process**

After tax bills are mailed to property owners, property owners have 30 days to question the valuation of their property. For 2004 the MOA instituted a filing fee to discourage frivolous appeals. If a reduction in the value of the property is awarded, the filing fee will be refunded.

Since the implementation of the new website and the appeal filing fee, the department has seen an 80% decrease in formal appeals. The department experienced 2,393 less formal appeals in 2004 than in 2003. Of the 590 formal appeals that have been filed for this year, the amount of corrected assessments cannot be determined because the appeal hearings are still being conducted.\textsuperscript{25}

**New Board of Equalization**

Property owners who are unable to resolve their questions regarding their tax bill may file a formal appeal by specifying the grounds for the appeal and paying a filing fee based on the assessed value of their property. Appellants must be able to provide evidence supporting their appeal. Property owners will present their evidence to the Board of Equalization. In the past, property appraisal staff revealed that the Board of Equalization did not always act on evidence presented, and occasionally made adjustments based on appellants’ presence at appeal hearings.\textsuperscript{26}

To ensure the appeal process is fairly conducted, the Anchorage Assembly nominated new members to the Board of Equalization in 2004. The Board of Equalization consists

\textsuperscript{24} Ibid.


of private citizens, who undergo formal training provided by the State Assessor. Appeal hearings are held over a two-month time period. This year, all hearings begin the week of April 1, 2004 and are to be completed by June 1, 2004.

**Other Efforts to Improve the Property Assessment Process**

In October 2003 the Office of the State Assessor conducted a special review and examination of the assessment, valuation, and taxation procedures of the MOA. Among their findings they suggested the following improvements in the property assessment process.

**Streamlined Coordination Between MOA Departments**

Through Municipal wide data sharing, the appraisal department can benefit from more direct communication with the planning, permitting and zoning departments. This will allow the appraisal department to determine specific aspects of new construction, including improvements to existing properties, in a timelier manner. It will also lead to a more precise description of properties, and thus more accurate appraisals.

**Technology Improvements**

It is believed that Geographic Information System (GIS) technology would enhance the productivity of the appraisal and assessment process. This system would be used in conjunction with the MOA’s current computer system, Computer Assisted Mass Appraisal System (CAMA). The GIS would also allow appraisal staff to pick up new construction in a more accurate, efficient, and expeditious manner using these handheld computers. In addition, use of this mapping system can be combined with information from other Municipality departments such as planning, permitting and zoning.

It has also been recommended that the MOA invest in a CAMA-compatible mobile home valuation software. This will assist in equalizing the mobile home valuation process.
PROPERTY TAX EXEMPTIONS AND CLASSIFICATIONS

Overview

Property tax exemptions are mechanisms that government uses to provide relief from tax payment. This relief may take the form of preferred rates, tax liability reduction, or direct credit of tax owed. Exemptions may reduce overall revenues, but they provide public service and community benefit. Generally, exemptions are provided based on the nature of the owner, type of property, or property use. Senior citizens, veterans, and the disabled have historically received exemptions or reductions to property taxes.

Sound tax policy is based on five principles: provision of appropriate revenues; fair and equitable; neutrality; easy economical to administer; and accountability. In the case of exemptions, tax relief is used to achieve fair taxation for those taxpayers less able to pay the same as others. Tax experts describe this as vertical equity, or the ability to pay principle.

Nationally, it is common to provide relief for specific groups. Most states or local governments provide some exemption to seniors, disabled, or veterans. Thirty-six states, including Alaska, provide tax exemptions for seniors. Relief ranges from $200 in tax rebates to full exemption of all property value. Attributes differ on other types of exemptions around the nation as well. The MOA grants exemption on the first $150,000 of assessed value of real property for residents over 65 years old and for disabled veterans.

Additionally, relief is provided to promote community purpose. In Anchorage, property of an organization, not organized for business or profit-making purposes, and used exclusively for community purposes is exempt from taxation. Charitable organizations, such as churches and social service agencies are exempt from property taxes in some states and receive reductions in others. Every state but one provides relief to religious organizations although the type and amount differ greatly. Schools, libraries and other governmental properties are similarly exempt. A recent state survey showed that over 90% of the states provide this type of exemption.

In the MOA the tax cap has limited the amount of total tax revenue that can be collected. Therefore, any additional taxes collected by removing exemptions, will reduce the burden on other non-exempt taxpayers. This is true of all taxes except the 8% bed tax. Reviewing tax exemptions is, therefore, an effort to more fairly distribute the tax burden, not a mechanism to increase overall revenues.

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27 Brunori, David, pg. 13-27
28 Ibid, p. 20-21
29 Sexton, T, table 6
30 Municipal Code, 12.15.015 Exemptions
31 Ibid
32 Sexton, T, table 3
Issues in MOA Property Tax Exemptions

Exemptions can dramatically reduce the tax base. For 2003, there were 8741 senior and veteran exemptions. The total value of those properties was roughly $1.1 billion. The total tax lost to the MOA, as a result of the exemptions, was $18.5 million. In 2000, the Institute of Social and Economic Research reported rapid growth of the MOA senior property tax exemption. Since 1990, forgone property tax revenues due to senior exemptions have increased 14% annually while property tax revenues have grown only 5.6%. This exemption alone adds a 6 percent premium on every tax bill. In Alaska, the seniors as a percent of the Alaska population will grow from 8% to 20% in the next 25 years. Since the senior population is growing more than any other age group, this trend can be expected to have a profound impact on the future MOA tax base. The state used to reimburse the city for the difference of taxes lost as a result of the exemptions but this practice was discontinued.

The overall tax burden for Anchorage residents is very low due to lack of sales or income tax. Who pays and how much is determined by Assembly policy actions. Exemptions are politically popular because of the tax savings by constituents and burden redistribution. Potential issues are: 1) exemption programs are usually mandated at the state or national level, but affect local areas; 2) exemptions often do not focus tax relief on the most needy populations; 3) the overall effect of exemptions may be resulting in substantially higher property taxes for the non-exempt.

Exemptions for the elderly and disabled veterans

Anchorage has increased residency requirements for seniors claiming exemption. Also, MOA has instituted procedural changes to reduce the administrative costs of exemptions by requiring one time filing instead of yearly filing for seniors and disabled. These steps have proven effective; however more substantial policy actions are required to avoid budget shortfalls and concentrated burdens on younger taxpayers.

Just over half the states use specific income level to determine senior exemptions while only four apply means-testing for veterans’ exemptions. Alaska is one of eleven states that do not grant exemptions for the disabled, unless related to service in the military. Means-testing is often viewed as a viable option to capture revenues from those that can afford to pay their share. Given the rising senior population and seniors’ improved financial circumstances, the MOA may consider implementing a policy to counter the effects of aging demographics on property taxes. Deferral, circuit-breakers and means tests are all possible options to redistribute the tax burden without adding undue pressure on the most needy.

33 Figures provided by Kelly Taylor, Property Appraisal Division
34 Goldsmith, S and Hill, A, “Anchorage Budgets and Burdens”
35 McDowell Group
36 McGee, Marty “Improvements in Property Appraisal, presentation to Assembly, dated Feb. 2004
37 Sexton, Terri A, table 6
Exemptions Effect on the Community

Government property is predominantly free from taxation. In Anchorage, this is especially concerning because of the military presence and proximal advantage for state operations. Two issues arise regarding this exemption. First, property owned by the government requires the same infrastructure and services as private property. However, no revenues are collected from the property to offset this service provision. Recent discussion in property taxation of governmental and community purpose property has focused on user fees to recover expenditures of specific services. As previously mentioned, the valuation method used can affect amount due from operations of these properties. Second, government property reduces the overall property available in the tax base. Since the tax cap limits overall revenues, this is only relevant as a potential option to disperse the tax burden over more taxpayers. For example, the recent MOA building donated to Out North, a non-profit theater organization, has caused public scrutiny and interest in property tax implications. Government property not being utilized may be reviewed in light of the forgone revenues for potential commercial uses.

Generally, exemptions reduce the tax burden on specific groups but shift it to others in the community. Since the Municipality operates with a tax cap on revenues generated by property tax, there is no net gain of revenues when an exemption is provided. The effect is that some property taxpayers share the increase caused by the reduction in tax liability for others. Once the tax cap is calculated and the total property valuation is complete, the mil rate is applied to determine the tax bill for each property owner to collect the amount of revenue allowed under the cap. The mill rate is subsequently higher than it would be if there were no exemptions allowed. This serves as the basis for much debate about fair taxation since the effective tax rate is higher for property owners who are not elderly, disabled, or veterans. Equitability is highly subjective and is best determined by legislative action by representatives.

An examination of the effect of the mil rate if the exemptions were removed will show the amount each property taxpayer is subsidizing. For example, if a home is assessed at $100,000 and the tax cap was such that the mill rate was 15 mills, then the property tax bill would be $1500. However, if the mill rate is reduced because exemptions are removed, the tax bill is less with the same valuation. The decision for the public is whether the relief for specified purposes is worth what it cost individual taxpayers. In other words, is it worth $25 per $100,000 assessed value to provide relief for our seniors, veterans, and disabled or community-enhancing services such as churches and charitable organizations?

The property tax does not affect the price of real estate but usually increases rental costs by the size of the tax. A negative effect on the demand for rental housing and commercial leasing may occur with increased burden on non-exempt taxpayers.
Other Possible Approaches

The Circuit Breaker

Twenty-nine states use “circuit breakers” to pinpoint the relief to disadvantaged populations; Alaska is not one of them. A circuit breaker approach compares the property tax paid with the income of the taxpayer. If the ratio between the two is excessive, the circuit breaker trips to prevent the “overload”.38 This method ensures that those with an ability to pay taxes do pay taxes. Typically the relief is then given to the needy at state expense, usually as a credit to income tax owed or a direct cash payment. This is essentially an intergovernmental transfer whereby state assistance is provided to insure both appropriate local revenues and tax relief for the needy. Given the current trend of reduction in state assistance to local governments, it may be difficult to convince the State government to participate in this type of program.

Tax Deferrals

Another mechanism provided by some states, but not utilized in Alaska, is tax deferral. With a tax deferral, individuals with limited income whose property values have increased due to no fault of their own, are allowed to pay rates commiserate with old values.39 The taxing entity then defers the difference and it becomes a claim against the estate. This approach allows those taxpayers with fixed and limited income some relief from increased tax expenses.

TAX CLASSIFICATIONS

Overview

Much about classifications was covered in the section on valuation. However, some important points must be made. Nineteen states, plus the District of Columbia structure their property tax to apply different effective rates to specific types of property. All remaining states assess tax rates uniformly.

Property taxes classifications in Anchorage include real property and personal property. Real property is further classified as residential and commercial property. Classification often benefits homeowners by reducing relative effective tax rates of this type of property compared to other types such as commercial, industrial, and agricultural.40 Additionally, valuation methods may favor homeowners and is covered in another area of this report. For example, valuation for agricultural land is valued in current use as compared to best economic use, thereby reducing the amount owed in taxes.

38 Mikesell p. 406-7
39 Mikesell p. 406-7
Classification is accomplished by varying assessment ratios or statutory rates for different types of property, though equal effective tax rates can be achieved with either approach.\textsuperscript{41} A large portion of the economic activity in the city is exempt from the property tax. This includes the military, federal civilian, state and local government, and the non-profit sector. This would account for the relatively low commercial share of total assessed value in Anchorage.

Classifications should represent the horizontal equity principle because those among each class are presumed to have like abilities to pay applicable rates. In actuality, ability to pay may differ greatly among properties within the same classification. Different classes indicate different tax capability between classifications. However, policy actions like classification changes can significantly alter the tax incidence and possibly the administrative costs of tax collection.

\textsuperscript{41} Mikesell p. 410, Table 10-2
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Sexton, Terri A, “The Property Tax Base In The United States: Exemptions, Incentives, and Relief”, Assessment Journal; Fall2003, Vol. 10 Issue 4, p5, 29 p, 7 charts, 1 map