Municipalities love taxing homes almost as much as Americans love owning them.

LANDED GENTRY

By Susan B. Weiner

FINANCIAL PLANNERS COUNSEL THEIR CLIENTS ON INCOME, ESTATE AND GIFT taxes. But they often neglect residential property taxes. That may be a mistake. "[Property taxes are] a significant cost of owning real estate (typically 1 percent to 1.5 percent of market value), so must be considered in making purchase/hold decisions. They can also be a significant cash flow requirement for someone in retirement that has a lot of illiquid wealth...," says William R. Urban, principal, Bingham, Osborn & Scarborough LLC in Menlo Park, Calif.

It's possible for your clients to get their property taxes cut, if their homes are assessed unfairly or inaccurately—or if they're eligible for exemptions. But first, they must understand whether the stakes are high enough and how property taxes are calculated.

The highest property tax states are concentrated in the Northeast, according to 2004 U.S. Census data. They include New Jersey, Connecticut, New Hampshire, District of Columbia and New York. Per capita, New Jersey residents paid $2,099 versus $1,086 average across the U.S.—and $367 in Alabama, the cheapest state. In terms of percentage of personal income consumed by property taxes, Maine (5.48 percent), New Hampshire (5.10 percent) and New Jersey (4.83 percent) are the most expensive, says Frederik Heller, manager of the Washington Information Resource Center at the National Association of Realtors (NAR).

Bob McNamara, NAR policy representative, says, "All across the country, people are complaining about their property taxes because they're going up." Property taxes increased by more than $100 billion—roughly 40 percent— from 2000 to 2005, according to the census data.

McNamara attributes the tax increases largely to rising property values. Property taxes are a function of two numbers: First, the assessed value of the property, and second, the tax rate per $1,000 of the property's assessed value. "Local governments are slow to reduce tax rates when property values are increasing. They can get more revenue without raising rates," says McNamara.

Some states do limit these stealth increases in property taxes. Bert Waisanen, fiscal analyst with the National Conference of State Legislatures, notes that property taxes only rise if they are allowed to under existing laws (not subject to statutory or constitutional limits), or legislators at the local or state level do not adjust them along the way.

If housing prices level off, will property taxes follow suit? Not likely, according to Richard Roll, CEO and president of the American Homeowners Association (AHA). The costs of municipal and county services, which rely on property taxes for most of their funding, face unprecedented pressure from the rising costs of employee health insurance, gasoline and meeting the unfunded requirements of the federal "No Child Left Behind" law.

With more increases coming, it's important that your clients pay no more than their fair share of property taxes. According to the AHA, "Up to 60 percent of all residential properties nationwide are over-assessed, and studies have shown that although less than 2 percent of assessments are appealed, usually 75 percent to 90 percent of all appeals result in a reduction of taxes."

The AHA's Roll suggests that homeowners start by checking the accuracy of their property tax record. For example, does it list four bedrooms for a house that only has three? That kind of mistake is easily corrected.

Next, research the state's regulations about how specific types of construction and materials should be valued. The AHA publishes *The Homeowner's Property Tax Reduction Kit*, an 86-page guide with state-by-state regulations and contacts.

Homeowners can delve into the nitty-gritty of the mechanical characteristics and defects of their property. For example, a property assessment may be reduced due to flood damage, zoning changes or declaration of a nearby area as a hazardous waste site.

Property tax exemptions are also worth investigating. Depending on where your clients live, they may be eligible for exemptions that reduce property taxes paid by the elderly, veterans, families with a member stationed overseas and owners with certain agricultural uses on their property.

Depending on the state your client lives in, their property may be reassessed for tax purposes every one to 10 years. Typically, there's a deadline by which they must file to challenge a reassessment. Don't be afraid to act. Assessment is an art, not a science, and your local assessor wants your assessment to be fair, says the AHA's Roll.

Across the nation, there have been movements to limit property taxes. This isn't always positive. For example, California's Proposition 13 may "provide a barrier to community improvements in older communities, which becomes important when addressing issues of where to live...," says Urban of Bingham, Osborn & Scarborough.

Other states are concerned about the reliance of education on property taxes. Ohio now gets funding from sales taxes, while Michigan uses a combination of "sin taxes," says the NAR's McNamara.

However, with property taxes providing, on average, more than 90 percent of municipal and county budgets, they are here to stay.

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