

Errors in property assessments hardest on low-income homeowners

March 10 2015, by Marc Ransford

Indiana should review its property assessment practices because errors are causing some low-income homeowners to pay too much in property taxes while well-off homeowners pay too little, says a new study from Ball State University.

"Assessment Quality: Sales Ratio Analysis of Residential Properties in Indiana," an examination of property tax assessment by Ball State's Center for Business and Economic Research, found that—for reasons that are unclear—low-value residential properties being over-assessed while high-value homes are under-assessed.

"Accurate assessments are one of the difficult aspects of property taxation," said Dagny Faulk, CBER's research director who co-authored the study with CBER director Michael Hicks. "Ideally, [sales price](#) and assessed value would be close. Across the state, we find issues with the quality of assessment, on which [property taxes](#) are based.

"These irregularities potentially harm low-income households since they pay higher property taxes, while high-income households pay less. In effect, those with less expensive homes may be paying a surtax that was never intended."

CBER researchers examined sales ratio of residential properties across the state by using data from the Indiana Association of Realtors and property tax rates from the Indiana Department of Local Government Finance. Sales ratio measures how close the sales price is to the assessed

value. Residential properties represent less than half of the assessed value and property tax levy in the state, with commercial and agricultural property making up the balance.

The study found:

- Properties with sale prices of less than \$100,000 tend to be over-assessed while properties with sales prices of more than \$200,000 are under-assessed.
- Assessment is most uniform for properties with sale prices between \$100,000 and \$200,000. This is also the price range with the most sales, so there are more data points to base assessments on.
- Non-homestead (primarily rental) properties have much less uniform assessments – still showing the same pattern of properties with low sale prices being over-assessed and properties with high sales prices being under-assessed.

Faulk points out that since 2000, there have been dramatic changes in Indiana's property tax system—still the primary source of funding for local governments.

These changes include a court-ordered reassessment, the implementation of trending to bring assessed value close to market value and the enactment of property tax caps. Efforts to improve assessment practices included a reduction in the number of government offices doing assessment and the implementation of computer software for mass appraisals in some areas, she said.

Faulk said additional work is needed to better understand the cause of these discrepancies and to recommend ways to address errors.

"Without further analysis, we cannot know the cause of the errors in

assessment, only that they exist," she said. "Future research will estimate property value based on the characteristics of the property and neighborhood, including socioeconomic, and compare the estimated property value with the [sales](#) price and assessed value. This will provide a far clearer analysis of the cause and provide potential remedies to the errors in assessment we observe in Indiana's residential properties."

More information: "Assessment Quality: Sales Ratio Analysis of Residential Properties in Indiana." [projects.cberdata.org/reports/...alesRatio-030415.pdf](https://projects.cberdata.org/reports/salesRatio-030415.pdf)

Provided by Ball State University

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