How can my taxes be increasing when values are dropping?

The tax cap is the main reason behind this issue because the value times the tax rate no longer equals taxes. To even get a handle on this problem, we need a basic understanding of Nevada's real property tax system.

Land is based on market value. Improvements however are based on what is known as the Replacement Cost New Less Depreciation (RCNLD). This means we have to calculate what it cost to replace (not reproduce) the improvements. (Improvements are ANYTHING that has been done to the land, whether recent or not. Land starts out as just bare dirt. Once it has been graded and leveled, it is considered "improved.") Once the improvement value has been determined it is added to the value of the land which results in a total taxable value. That taxable value, which is not to exceed a total market value for the entire property, is multiplied by 35% to arrive at the assessed value. I have never understood the reason for the fractional assessment other than it sounds better to say we are not taxing you at the full value of your property but only 35% of it. (The tax rate is higher to make up for that though, so I don't know what other reasons exist for this approach.) So let's see an example:

Land	$30,000
Improvements (RCNLD)	$70,000
Total Taxable Value	<u>$100,000</u>
Fractional Assessment	X 35%
Assessed Value	$35,000
Tax Rate	$3.10 (per hundred or .0310)
Taxes	$1,085.00

If the land and/or the improvement values increase, so does the total assessed value. (Materials to build are generally more expensive to purchase today than they were yesterday, last week, last year and ten years ago. Therefore the RCNLD often results in a higher value.)

Five years after the cap has been in place, this is what the same property may have experienced.

Land	$65,000
Improvements (RCNLD)	$165,000
Total Taxable Value	<u>$230,000</u>
Fractional Assessment	X 35%
Assessed Value	$80,500

If the tax rate stayed the same and there was no cap on taxes, this same property would pay $2,495.50 in property taxes. However, since there has been a property tax cap, and let's say this property qualified for the 3% cap, the taxes would be significantly lower.

$1,085 in taxes increased by 3% per year instead of the inflation rate the property experienced, would result in taxes of only $1,257.82

	Year One	Year Two	Year Three	Year Four	Year Five
Taxes	$1,085.00	$1,117.55	$1,151.08	$1,185.61	$1,221.18
Amount of Increase	1.03	1.03	1.03	1.03	1.03
Total New Taxes	$1,117.55	$1,151.08	$1,185.61	$1,221.18	$1,257.82

That means because of the tax cap, this property paid $1,237.68 *less* than it would have without the tax cap in place. Essentially this means the property is being taxed as though the value were really only $114,072 instead of $230,000. (Take the taxes of $1,257.82 and divide by the tax rate of .031 and then divide by the fractional assessment of 35% and the value indicated in $114,072.)

This means the value could drop $50,000 in the market and you would still pay more taxes because the whole property is not on a market value system.) Let's look at what would happen in this case.

Total ***market*** value of $230,000 minus $50,000 because of a drop in the market results in a market value of $180,000. If the taxable value by the assessor was $190,000 and it was dropped to $180,000 notice what happens to the taxes:

$180,000 (New taxable value)
X 35%
$63,000 (assessed value)
X .0310 (tax rate)
$1,953 Taxes

$1,953 in taxes based on the reduced value. Again, compare that to the $1,257.82 in taxes with the cap and that leaves room for another increase of 3% because with the increase the taxes are $1,295.55. That is still less than the taxes would be based on the $180,000 reduced market value. Even though the value dropped $50,000 the taxes went up because the capped taxes are still *less* than the actual assessed value times the tax rate.

As you can see you would pay more in taxes if we were on a market value system. Sure you would see a reduction in taxes every time the market dropped, but you would also be paying significantly more all along. This may all seem a bit "out of whack" to you and I would agree, but you as a taxpayer are still paying much less in property taxes than you could be, depending on how the property tax system is designed.

For the record, most, if not all of us Nevada Assessors, think this is a bit goofy too and certainly hard to explain. However, it is the system we have and we had virtually no influence in how it works, we are simply saddled with making the calculations. If you strongly believe the property tax system needs to be overhauled, I would suggest you contact your Assembly and Senate representatives.