

Philadelphia... Real Estate Taxes



\$1,311 •



• \$1,494

Real Estate Taxation Background...

- In many other cities and other local jurisdictions, the Real Estate Tax is the most significant source of local revenues.
- The Real Estate Tax Rate is set annually by local government officials and applied to the value of properties, determined by a government agency.
- Real Estate Tax bills are calculated by applying the tax rate to the value (value x tax rate = tax bill).

Things are a little different in Philadelphia...

Philadelphia Real Estate Taxation Background...

- The Real Estate Tax generates about \$400 million for the city and about \$550 million for the school district. The school district gets 60% of total revenues. (The tax generates about 10% of the city budget and about 25% of the district budget.)
 - The Real Estate Tax Rate (8.264% today) is set by City Council and the
- applied to the value of

Current Philadelphia Real Estate Taxation Practices...

- Inaccurate assessment creates a situation where similar properties do not have similar tax bills, and where not all properties pay taxes based on the same percentage of property sale price.
 - The average city home is assessed at only approximately 32 percent of its potential sale value.
 - Many (often higher-price properties) are assessed lower while many (often lower-price properties) are assessed higher than potential resale value — **many property owners are not paying their fair share, while others pay too much.**
 - The Tax Reform Commission concluded: Philadelphia's inaccurate and regressive assessments violate "standards of vertical and horizontal equity."

Real Estate Taxation

- These two homes sold in 2007 for dramatically DIFFERENT amounts...look which home has a higher tax bill.

23XX Saint Albans Street

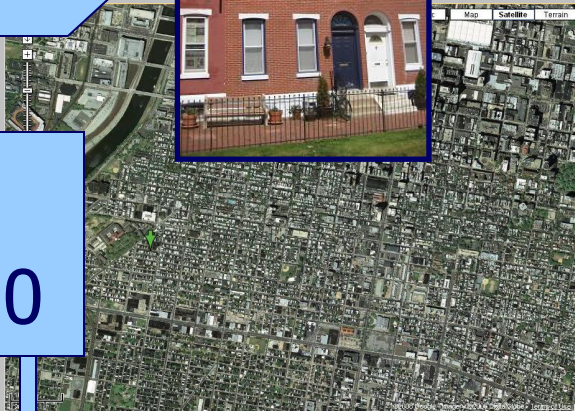
33XX Holme Avenue

\$1,311

\$1,494

SOLD
\$480,000

SOLD
\$88,500



Real Estate Taxation

- These homes sold in 2007 the same amount, but all pay dramatically DIFFERENT tax bills...even after the 2008 reassessment.

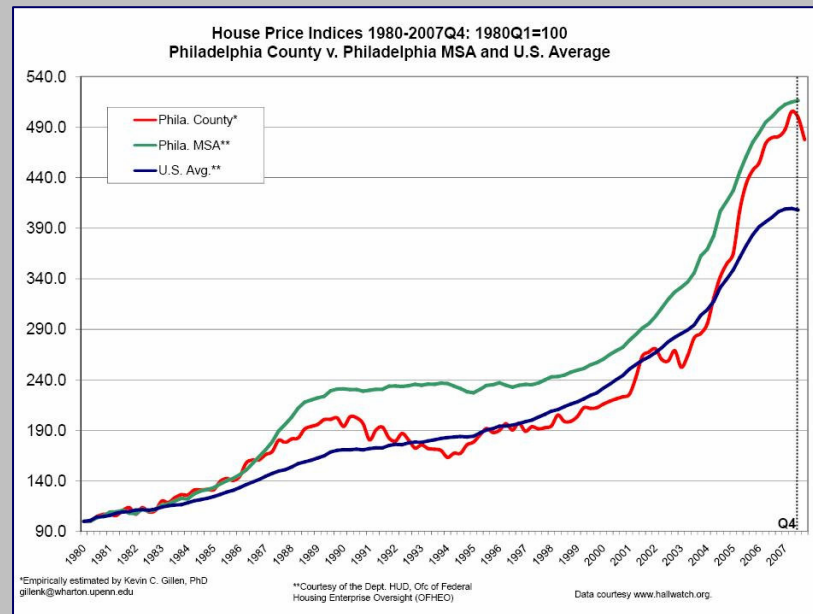
2007 PRICE	STREET ADDRESS	CITY NEIGHBORHOOD	BRT MARKET VALUE	2008 TAX BILL
\$250,000	17XX Annin	South Philadelphia	\$6,400	\$169.25
\$250,000	21XX Webster	Center City/Fairmount	\$15,500	\$409.89
\$250,000	10XX Tasker	South Philadelphia	\$35,000	\$925.57
\$250,000	12XX Crease	Kensington	\$36,600	\$967.88
\$250,000	31XX Draper	Upper NE Philadelphia	\$88,400	\$2,337.72
\$250,000	18XX Napfle	Lower NE Philadelphia	\$87,700	\$2,319.21
\$250,000	5XX Pelham	Northwest Philadelphia	\$113,800	\$3,009.42
\$250,000	67XX N 06th	North Philadelphia	\$125,000	\$3,305.60

Current Philadelphia Real Estate Taxation Practices

- **Unpredictable** — Assessment inaccuracies distort the real estate market and increase the volatility of Real Estate Tax revenue streams.
 - Tax bills that are higher or lower than they should be (because the market value for tax purposes is different from the potential sale price) affect property values, since buyers are willing to pay more for a low-tax property and less for a high-tax property.
 - Homeowners and investors **live with uncertainty in terms of potential future dramatic changes in tax burden** that would result from changes in the system. Of course, fear of unpredictable change is one reason for the current system.
 - Research for the Tax Reform Commission declared: Philadelphia Real Estate Taxation distorts the market in a way as to “induce greater uncertainty into expectations of future tax revenues.”

Real Estate Taxation

- City home values DOUBLED since 2002, but assessments remained largely unchanged. In 2007, the city finally increased the values of more than 400,000 homes in a year when values decreased.



Real Estate Taxation

- This home is on the market for \$6 million, but valued for tax purposes at \$250,000 and has a tax bill of \$6,611 today. What will its tax bill be next year?

$$\$250,000 \times .32 \times .08264 = \$6,611$$

\$6,611 •

$$\$6 \text{ million} \times .32 \times .08264 = \$158,669$$

\$158,669 •



Do I Hear \$6 Million?

Current Philadelphia Real Estate Taxation Practices

- **Confusing** — Fractional assessments and technical jargon create unnecessary confusion.
 - The terms “market value” and “assessed value” sound alike, but they are very different.
 - The relationship between “market value,” “assessed value,” and tax bills is often unclear to taxpayers.
 - Taxes are applied to only a fraction — 32% — of market value.
 - The Board of Revision of Taxes sets property values while City Council and the Mayor set tax rates. **Most homeowners do not understand how values for tax purposes relate to true property resale values.**

Real Estate Taxation — Legal Requirements

- The BRT explains the definition of "Market Value" on its web site — "The most probable price (in terms of money) which a property should bring in a competitive and open market." **Market value should equal a property's likely sale price.**
- The Pennsylvania Constitution demands that "all taxes shall be uniform, upon the same class of subjects, within the territorial limits of the authority levying the tax." **The city is in comprehensive violation of uniformity and the most-recent assessments do not correct the problems.**

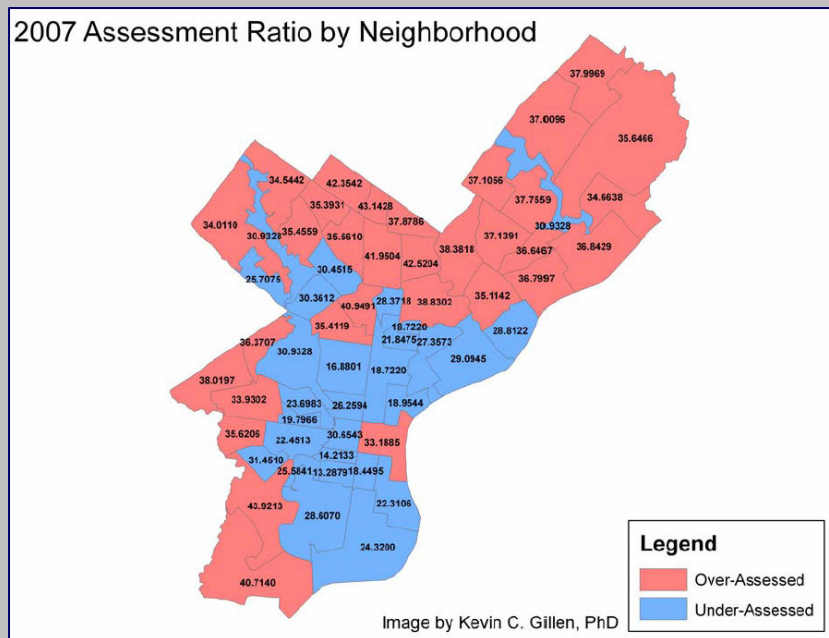
A Recent Study

- In updating research performed for the Tax Reform Commission, a study by Wharton Research Fellow Kevin Gillen, PhD. shows:
 - **“Assessment accuracy has worsened dramatically** during the last five years. While assessment regressivity has not worsened, it still remains significant.”
 - **“Assessment errors in Philadelphia neighborhoods range from ‘really erroneous’ to ‘incredibly erroneous’.”**
 - **“We are, on average, all significantly under-assessed, but wealthier households are more under-assessed than poorer households.”**
 - **“Clearly, assessment accuracy in Philadelphia has gotten dramatically worse** since the original analysis done by the Tax Reform Commission five years ago.”
 - **“Clearly, assessment inequity has remained regressive** since the original analysis done the TRC five years ago.”

(See Updated Results On Property Assessment Accuracy, Uniformity And Equity In Philadelphia, 2008)

Assessment Issues Affects Homeowner Tax Burdens

- Some neighborhoods are **OVER-taxed** while other neighborhoods are **UNDER-taxed**.



**On Average, Homeowners
In Red Neighborhoods
Pay Too Much
(Avg=32)**

**On Average, Homeowners
In Blue Neighborhoods Pay
Too Little
(Avg=32)**

Steps Toward A Solution

- The Tax Reform Commission recommended ways to make Real Estate Taxation fair and understandable.
 - First, complete a fair reassessment to establish accurate values for all properties; **We can argue about tax rates...but values must be accurate for all properties: two homes, both \$100,000, should have the same tax bill.**
 - Then, eliminate fractional assessments (the distinction between “market value” and “assessed value”) so that tax burdens are simply the tax rate applied to the property value. **If values are accurate, this move to “full valuation” is just a math exercise that would not affect tax bills.**

Transition Options

- The Tax Reform Commission recommended ways to make the transition to more fair system less painful:
 - **Reduce the tax rate** to create a “revenue neutral” change.
 - **Use a Real Estate Tax relief “buffering” system** to prevent dramatic increases in a property’s tax bill. For example, assessments could be determined based on an average of recent-years’ values to phase in the changes over many years.
 - **Tax buildings less and land more to reduce burdens for homeowners**, while encouraging development and discouraging speculation (by making it expensive to hold vacant land and underutilized property) — such a move would reduce tax burdens for 80% of Philadelphia homeowners.

Policies To Protect Vulnerable Homeowners

- The city can create **additional policies for vulnerable homeowners:**
 - Create deferments so vulnerable homeowners can live in their homes today and pay their tax burden when they sell their homes.
 - Separate property assessment and formal appeals so the assessors do not judge their own work and establish a Taxpayers' Advocate to represent taxpayers in real estate tax matters.
 - Have Council sets tax rates *after* it knows the true assessed value of the City; (Currently, Council sets rates *before* assessments are performed so increases in assessments result in increasing tax bills and fiscal windfalls for the City).
 - Allow taxpayers to pay Real Estate Tax bills in quarterly payments so homeowners can spread payments throughout the year.
 - Apply tax payments to the current year's tax liability so delinquent taxpayers making tax payments can qualify for state assistance.
 - Advocate for increased property tax relief from the Commonwealth of Pennsylvania: a state circuit-breaker property tax relief program could hold down Real Estate Tax increases for those on fixed incomes; state-funded low-income property tax relief programs could be expanded for truly needy taxpayers.

Policies To Avoid

- Policy makers must beware: **other policies presented to address these issues could do more harm than good.**
 - Do Nothing — Doing nothing maintains a flawed system where some pay too much while others pay too little. The potential for legal challenges means that the apparent stability of assessments could be overturned at any time.
 - Cap Assessment Increases or Freeze Assessments — Assessments must keep pace with changes in value or the system will become even more unfair. Rate reductions or tax deferments are better tools to help homeowners.

Assessments Must Keep Pace With Changes In Value Or The System Will Become Even More Unfair

- If assessment increases are capped at 5% and two homes worth \$100,000 today increase in value at different rates (one at 5% per year and one at 20% per year), after five years the owner of the first house will be paying taxes based on an assessment of 100% of potential sale value but the owner of the second will be paying taxes based on an assessment of only 51% of sale value.

Year	House Increasing in Value at 5% Per Year			House Increasing in Value at 20% Per Year		
	Potential Sale Value	City-Determined Assessed Value (Assessment Capped at 5% Increase Per Year)	Ratio of City-Determined Assessed Value To Potential Sale Value	Potential Sale Value	City-Determined Assessed Value (Assessment Capped at 5% Increase Per Year)	Ratio of City-Determined Assessed Value To Potential Sale Value
Today	\$100,000	\$100,000	100%	\$100,000	\$100,000	100%
Year 1	\$105,000	\$105,000	100%	\$120,000	\$105,000	88%
Year 2	\$110,250	\$110,250	100%	\$144,000	\$110,250	77%
Year 3	\$115,762	\$115,762	100%	\$172,800	\$115,762	67%
Year 4	\$121,550	\$121,550	100%	\$207,360	\$121,550	59%
Year 5	\$127,628	\$127,628	100%	\$248,832	\$127,628	51%

Philadelphia Forward Seeks Positive Change In Philadelphia

- **Get on our list** — visit www.philadelphiaforward.org to sign up for our timely and informative email updates.
- **Learn more** — to learn more about real estate tax issues, visit http://www.philadelphiaforward.org/citywide_reassessment.

Resources For Further Inquiry

- *Philadelphia* **FORWARD** has created web-based and print resources for citizens, media representatives, and elected officials to explore these policies.
 - To read more about these issues, and to use our tax calculator to demonstrate how reassessment and proposed policies might affect city properties, visit:

http://www.philadelphiaforward.org/citywide_reassessment

Philadelphia Real Estate Taxation Glossary

Assessed Value — The property value for tax purposes (currently 32% of market value)
Assessment — The process used to determine property value for tax purposes
Board of Revision of Taxes (BRT) — The city agency that determines property values for tax purposes (but does not establish tax rates)
Caps (Assessment Increase Caps) — A limit set on the increase in property values for tax purposes
Circuit-breaker Property Tax Relief Program — An income tax reduction when Real Estate Taxes rise faster than household income
City Council — The city legislature, which, along with the Mayor, sets Real Estate Tax rates
Fractional Assessments — Property values for tax purposes set below 100% of market value
Freezes (Assessment Freezes) — Prevent an increase in property values for tax purposes
Land-Value Taxation — Taxing the value of land exclusively or at a higher rate than structures (as opposed to traditional Real Estate Taxation, which taxes land and structures equally)
Market Value — The price a property would sell for on the open market
Mayor — The city's chief executive, who, along with the City Council, sets Real Estate Tax rates

Quarterly Payments — Payments of a portion of the total every three months (instead of a single, once-per-year total payment)

Real Estate Tax — The tax on the value of property, including land and buildings and improvements on the land, which supports city and school district spending

Real Estate Tax Bills — Invoices to property owners calculated by applying the tax rate to assessed value (assessed value x 8.264% = tax bill)

Real Estate Tax Deferrals — Programs to allow homeowners to put off payment of Real Estate Taxes until a later date, often after the sale of the home

Real Estate Tax Rate — The percentage of assessed value to be paid by the taxpayer. Currently the Philadelphia tax rate is 8.264%.

Revenue Neutral — Generating no more and no less revenue or expenditure for the city budget

Standards Of Vertical And Horizontal Equity — Horizontal equity is achieved when similar properties are treated alike (similar houses have similar tax bills); vertical equity is achieved when appropriate adjustments are made to reflect differences (houses that are worth more have higher tax bills)

Tax Reform Commission — The voter-established agency that drafted a plan to make Philadelphia taxes more fair and less onerous



**Tax Reform Can
Move Philadelphia Forward**
www.philadelphiaforward.org

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