

What Every Real Estate Agent Should Know About Real Estate Assessments and Taxes

Real estate agents are not expected to be experts in all things real estate, but clients expect them to know the basics, and where to send them to find out more. According to a recent survey on homebuyers in Virginia, it was found that a large number of buyers were first-time homebuyers. As first-time buyers and buyers relocating to new areas, many will want to know more about real estate assessments, especially in a changing market.

Here then are some of the basic things an informed real estate agent should know about real estate assessments and taxes in their community:

- **Know how often properties are reassessed.** In Northern Virginia real estate is assessed annually, however in other parts of the Commonwealth properties are reassessed anywhere from every two to every six years. How's that for variety?
- **At what ratio of market value are properties assessed?** In Virginia, assessors strive to assess properties at 100% of "fair market value" (see defined value below), but are often following historical market indicators that may leave them lower than the 100% level (in an appreciating market) or higher than the 100% level (in a depreciating market as we are in right now). Homebuyers relocating here from another state will probably have had a different experience. For example, in Michigan, the assessor strives to assess property at 50% of true cash value.
- **What type of value is used for assessment purposes?** That is, how is it defined? In Virginia, the Virginia Supreme Court has defined "fair market value" for assessment purposes. In other states the legislature or the courts may define the value used for assessment purposes. This is important in developing sales ratio studies for assessment accuracy and uniformity and for selecting comparable sales for valuation purposes.
- **Know the effective date for valuation of properties for assessment purposes.** Real estate appraisers and assessors estimate value as of a specific date known as the effective date of valuation. In Virginia the effective date of valuation for property assessment purposes is generally January 1, with some jurisdictions having an effective date of July 1.
- **During what period of time are the factors affecting value studied before properties are reassessed?** This is critical. Although assessors are required to estimate property values for assessment purposes as of a specific effective date (as described above), they may be able to study market activities before or after this date, as long as they are consistent in their methods. For example, as the assessor I may consider "qualified sales" (see below for this definition) from January 1 through December 31, 2008, before estimating values effective January 1, 2009, for the 2009 reassessment. However, another assessor, even though he or she is performing annual assessments, may consider qualified sales from July 1, 2007, through June 30, 2008, before estimating values effective January 1, 2009, for the 2009 reassessment. Several jurisdictions in Virginia that perform reassessments every two years increased assessment for 2008 as a result of considering sales through December 31, 2006. Knowing the period of time that the assessor is studying to estimate value helps to clarify why assessments change the way they do.

- What sales of real estate qualify for inclusion in sales ratio studies?** In determining how assessments will change for each reassessment, most assessors conduct sales ratio studies that compare the assessed value of a property that sold to the sale price. For example, if the 2007 assessed value was \$250,000, and the sale price was \$260,000 in May of 2007, the ratio of assessed value to sale price would be 96% (\$250,000 divided by \$260,000 = 0.96 or 96%). Not all sales qualify for inclusion in a sales ratio study. For example, foreclosure sales and other forced sales may not qualify, nor do sales between related parties or sales where improvements or substantial physical changes took place since the last reassessment. The assessor can tell you what the current standards of practice are for qualifying or disqualifying sales. In many cases the state department of taxation or revenue sets out the guidelines that assessors must use in their sales ratio studies.
- Know the current real estate tax rate and when is it expected to change again.** In Virginia, real estate tax rates are typically set during the period between March and June as part of the local budget process where the budget year typically begins July 1st each year. Real estate tax rates are stated in dollars and cents per \$100 of assessed value in Virginia. However in some states the rates are stated in amounts (or millage rates) per \$1,000 of assessed value. Many buyers will want to know how to calculate the annual real estate taxes they will pay each year.
- What tax exemptions or abatements are offered to qualifying applicants?** Tax exemptions and abatements are often complicated and as such you should refer your client to the local assessor for these answers. You may want to know if any exemptions or abatements exist for the types of properties that you list or sell most often, but always suggest that they check with the local assessor or tax office as the tax laws may have changed. At the present time Virginia does not have a homestead exemption program. Several escrow companies have recommended that their clients contact their local assessor or treasurer to file for a homestead exemption. Several homestead exemption programs have been considered by the General Assembly in Richmond over the last several years but none has been successful in becoming law. Several states have residential homestead exemption programs, including Maryland, Michigan, and Texas, but not Virginia. The only tax relief program currently in effect in Virginia is the Tax Relief Program for Elderly and Permanently Disabled Persons. The qualifications for the program can be obtained from your local assessor or commissioner of revenue but the Virginia program is restricted to qualifying persons age 65 or over or those who are permanently and totally disabled.
- Know the basics of how and when a real estate assessment can be challenged.** According to Virginia tax law, the local assessor is required to send notices of assessment change to any property owner where the assessment was increased since the last reassessment. The assessment notice must include the deadline for challenging the assessment. In Virginia, assessments can only be changed upon review by the local assessor (departmental review), the Board of Equalization, or upon being challenged in circuit court. In some states, the assessment is revised when the property is sold, regardless of when it occurs. Real estate agents should also know what types of evidence the local assessment office or board of equalization will consider as part of the assessment review and appeal process. The types of evidence considered will generally follow the topics discussed above with the exception of real estate tax rates or tax amounts. Only assessed values can be challenged, not the tax rate or amount of real estate taxes a property owner pays.

Where can you find the answer to all of these questions? Contact your local assessor. Many have websites that include the items mentioned above or list an e-mail and phone number where they can be contacted for more information. Most assessment offices have initiatives aimed toward good public relations that include educating the public on what they do and how the assessment process works.

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