

AD VALOREM TAXES

Basic CMO Core Course: Municipal Finance

Presented

by

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TWO MAIN SOURCES OF REVENUE

- Sales Tax
- Ad Valorem Tax



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Sales Tax

- Mississippi Municipalities receive approximately 18.5% of sales taxes collected within the city limits
- A complete list of sales tax rates and exemptions can be found on the MS Dept. of Revenue website:
<http://www.dor.ms.gov/Business/Pages/Sales-Tax-Rates.aspx>
- Monthly and annual sales taxes diversions to cities can also be found on this site:
<http://www.dor.ms.gov/Statistics/Annual%20Reports/Annual%20Report%20FY%202016%20Final.pdf>



DEFINE “AD VALOREM”

- The phrase ad valorem is Latin for “according to value”



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ROLE OF GOVERNING AUTHORITY

**§§ 27-39-307 and 21-33-45 of the
*Mississippi Code of 1972***

They shall have the power to levy such taxes as may be necessary to meet the demands of their respective municipality . . . not exceeding the limits that may be prescribed by law. . . .



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LIMITS ON INCREASING AD VALOREM TAXES

Without a vote:

10% Annually for Cities and Counties

4% Annually for School Districts



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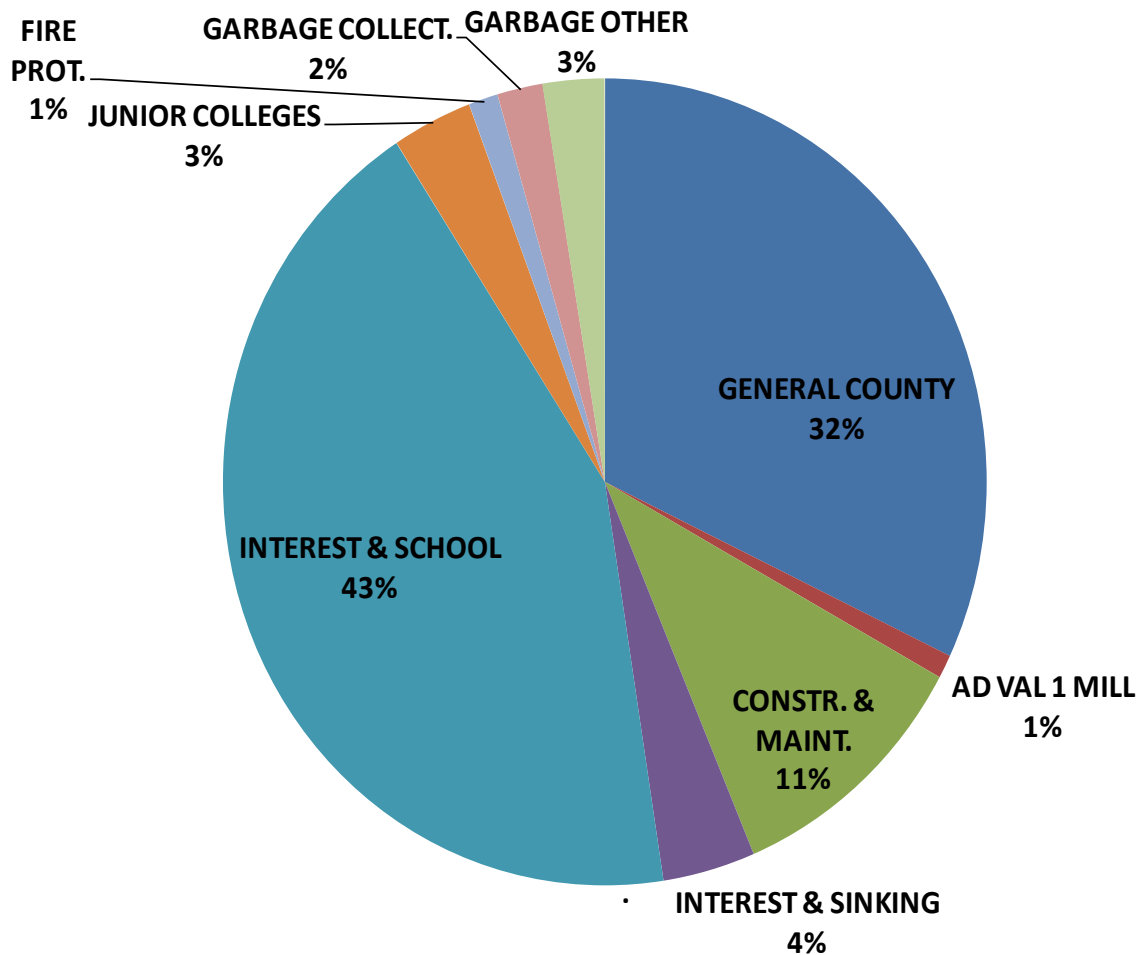
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AD VALOREM TAX SPENDING

STATEWIDE AD VALOREM BREAKDOWN (RURAL)



WHAT IS TAXED?

- **10% - Class I – Single Family Owner Occupied Residential**
- **15% - Class II – All Real Property not classified Class I**
- **15% - Class III – Business Personal Property**
- **30% - Class IV – Public Utilities**
- **30% - Class V – Motor Vehicles**



WHAT IS TRUE VALUE?

True value is defined in § 27-35-50 of the *Code*:

True value shall mean and include, but shall not be limited to, market value, cash value, actual cash value, property value and value for the purposes of appraisal for ad valorem taxation. . . . In arriving at the true value of all Class I and Class II property and improvements, the appraisal shall be made **according to current use, regardless of location**. In arriving at the true value of any land used for agricultural purposes, the appraisal shall be made according to its use on January 1 of each year, regardless of its location; in making the appraisal, the assessor shall use soil types, productivity and other criteria. . . .



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WHAT IS TRUE VALUE? (cont.)

- The point here is that *true value* and *market value* are not the same. Agricultural values, for example, can be much less than the actual market value of the property.
- Ownership and assessment of real property is as of January 1st of the tax year and payable the next year

- Example: Taxable: January 1, 2017

Payable: December 26, 2017

February 1, 2018



WHAT IS ASSESSED VALUE?

- The true value is multiplied by a ratio that is set by state law to yield the assessed value. The ratios are as follows:

Class I	10%
Class II	15%
Class III	15%
Class IV	30%
Class V	30%



WHAT IS ASSESSED VALUE? (con't)

- It is necessary to understand the difference in market value, true value, and assessed value. Assessed value is used to determine everything from millage rates to salary levels for some county officials, including that of supervisors.



HOW ARE THE DIFFERENT CLASSES TAXED?

- **Basic Formula**

- **True Value**

x _____ % (Ratio set by law)

Assessed Value

x Millage Rate

Gross Taxes



WHAT IS A “MILL” AND HOW IS IT CALCULATED?

- A Mill is a unit used in calculating money but is not a coin.
- A Mill is a tenth of a penny or a thousandth of a dollar.
- A tenth of one dollar or a dime is written \$.10.
- A hundredth of one dollar or a penny is written \$.01.
- One mill is a thousandth of one dollar and is written \$.001.



Example:

A Class II property has a true value of \$75,000 and is in a taxing district in which the tax levy is 117.72 mills. Calculate the tax bill.

117.72 Mills = .11772

True Value-	\$75,000
Class II Ratio-	<u>x .15</u>
Assessed Value-	\$11,250
Mill Rate-	<u>x .11772</u>
Tax Bill-	\$ 1,324.35



“SOME CITY” ASSESSED VALUE

	GROSS ASSESSED VALUE	EXEMPT SPECIAL HOMESTEAD	NET ASSESSED VALUE	
REAL	77,624,832	13,426,719	64,198,113	46.8%
PERSONAL	19,713,578		19,713,578	14.4%
MOTOR VEHICLE	35,237,311		35,237,311	25.7%
PUBLIC UTILITY	15,250,169		15,250,169	11.1%
MOBILE HOMES	2,855,269		2,855,269	2.1%
	-----		-----	
TOTAL	150,681,159		137,254,440	



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Net Assessed Value x Millage= Budget (from av)

Therefore:

Millage=

Budget (from av) / Net Assessed Value





Assume Budget (from AV taxes) = \$4,000,000

$$\text{Millage} = \frac{\$4,000,000 \quad (\text{BUDGET from AV})}{\$137,254,440 \quad (\text{NET ASSESSED VALUE})}$$

Millage = .0291 or 29.1 Mills

Note: This illustration of setting a millage rate does not take into account all factors necessary to set a final millage rate such as adjustments for homestead exemption and percentage collection ratios. Contact the MS Department of Audit for full procedure details.



Special Homestead Exemption

Homestead exemption for cities involves only those applicants that qualify for "Special Homestead Exemption". That is the applicants must be 65 years of age or older or disabled. The applicants are tax exempt on \$7,500 of "assessed value". The State of Mississippi reimburses the city a flat \$200 per applicant.

In recent years the state has not reimbursed the cities all of the \$200 because of budget cuts



REGULAR HOMESTEAD \$7,500 TABLE

ASSESSED VALUE		ASSESSED VALUE		CREDIT AMOUNT	
OF HOMESTEAD		OF HOMESTEAD		OF HOMESTEAD	CREDIT AMOUNT
\$ 1	\$ 150	\$ 3,751	\$ 3,900	\$ 3,751	\$ 156.00
\$ 151	\$ 300	\$ 3,901	\$ 4,050	\$ 3,901	\$ 162.00
\$ 301	\$ 450	\$ 4,051	\$ 4,200	\$ 4,051	\$ 168.00
\$ 451	\$ 600	\$ 4,201	\$ 4,350	\$ 4,201	\$ 174.00
\$ 601	\$ 750	\$ 4,351	\$ 4,500	\$ 4,351	\$ 180.00
\$ 751	\$ 900	\$ 4,501	\$ 4,650	\$ 4,501	\$ 186.00
\$ 901	\$ 1,050	\$ 4,651	\$ 4,800	\$ 4,651	\$ 192.00
\$1,051	\$ 1,200	\$ 4,801	\$ 4,950	\$ 4,801	\$ 198.00
\$1,201	\$ 1,350	\$ 4,951	\$ 5,100	\$ 4,951	\$ 204.00
\$1,351	\$ 1,500	\$ 5,101	\$ 5,250	\$ 5,101	\$ 210.00
\$1,501	\$ 1,650	\$ 5,251	\$ 5,400	\$ 5,251	\$ 216.00
\$1,651	\$ 1,800	\$ 5,401	\$ 5,550	\$ 5,401	\$ 222.00
\$1,801	\$ 1,950	\$ 5,551	\$ 5,700	\$ 5,551	\$ 228.00
\$1,951	\$ 2,100	\$ 5,701	\$ 5,850	\$ 5,701	\$ 234.00
\$2,101	\$ 2,250	\$ 5,851	\$ 6,000	\$ 5,851	\$ 240.00
\$2,251	\$ 2,400	\$ 6,001	\$ 6,150	\$ 6,001	\$ 246.00
\$2,401	\$ 2,550	\$ 6,151	\$ 6,300	\$ 6,151	\$ 252.00
\$2,551	\$ 2,700	\$ 6,301	\$ 6,450	\$ 6,301	\$ 258.00
\$2,701	\$ 2,850	\$ 6,451	\$ 6,600	\$ 6,451	\$ 264.00
\$2,851	\$ 3,000	\$ 6,601	\$ 6,750	\$ 6,601	\$ 270.00
\$3,001	\$ 3,150	\$ 6,751	\$ 6,900	\$ 6,751	\$ 276.00
\$3,151	\$ 3,300	\$ 6,901	\$ 7,050	\$ 6,901	\$ 282.00
\$3,301	\$ 3,450	\$ 7,051	\$ 7,200	\$ 7,051	\$ 288.00
\$3,451	\$ 3,600	\$ 7,201	\$ 7,350	\$ 7,201	\$ 294.00
\$3,601	\$ 3,750	\$ 7,351	\$ 7,500	\$ 7,351	\$ 300.00

Example 1

ALL CLASS I RESIDENTS WITH REGULAR HOMESTEAD EXEMPTION

COUNTY MILLS	59.48	\$	100,000	TRUE VALUE
CITY MILLS	34.37	X	10%	ASSESSMENT RATIO
SCHOOL MILLS	48.29			
			<hr/>	
		\$	10,000	ASSESSED VALUE
		\$	10,000	ASSESSED VALUE
TOTAL MILLS	142.14	X	0.14214	
			<hr/>	
		\$	1,421.40	GROSS TAX
		\$	1,421.40	GROSS TAX
		- \$	<u>300.00</u>	REGULAR HOMESTEAD CREDIT
		\$	1,121.40	NET TAX DUE



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Example 2

ALL CLASS I RESIDENTS WITH SPECIAL HOMESTEAD EXEMPTION

COUNTY MILLS	59.48	\$	100,000	TRUE VALUE
CITY MILLS	34.37	X	10%	ASSESSMENT RATIO
SCHOOL MILLS	48.29			
		\$	10,000	ASSESSED VALUE
		-	7500	SPECIAL HOMESTEAD CREDIT
		\$	2,500	NET ASSESSED VALUE
TOTAL MILLS	142.14	X	0.14214	
		\$	355.35	NET TAX DUE



Example 3

ALL CLASS II RESIDENTS WITH NO HOMESTEAD EXEMPTION

COUNTY MILLS	59.48		\$	100,000	TRUE VALUE
CITY MILLS	34.37	X		15%	ASSESSMENT RATIO
SCHOOL MILLS	48.29				
			\$	15,000	ASSESSED VALUE
			\$	15,000	ASSESSED VALUE
TOTAL MILLS	142.14	X		0.14214	
			\$	2,132.10	GROSS TAX



What is a Tax Exemption?



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Assume Budget (from AV Taxes) = \$4,000,000

Millage = $\frac{\$4,000,000 \text{ (BUDGET from AV Taxes)}}{\$137,254,440 \text{ (NET ASSESSED VALUE)}}$

Millage = .0291 or 29.1 Mills



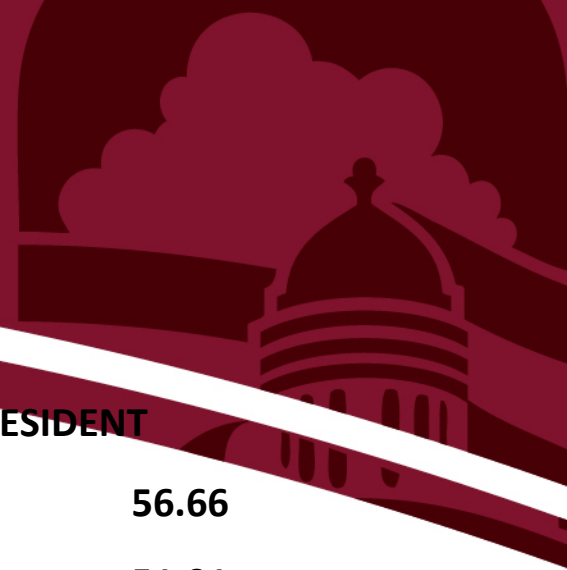
Assume Budget (from AV Taxes) = \$4,000,000

$$\text{Millage} = \frac{\$4,000,000 \text{ (BUDGET from AV Taxes)}}{\$100,000,000 \text{ (NET ASSESSED VALUE)}}$$

Millage = .040 or 40 Mills



AVERAGE MILLAGE RATES IN MS



	RURAL RESIDENT	CITY RESIDENT
COUNTY LEVIES	66.73	56.66
K-12 SCHOOL LEVIES	51.91	51.91
COMMUNITY COLLEGE LEVIES	3.47	3.47
MUNICIPAL LEVIES		37.03
TOTAL MILL RATE	122.11	149.07

DISCLAIMER: The information provided above is a compilation of data from numerous outside sources. As such, this data can

data can only be warranted to the extent of the correctness of its source documents. MS DEPT OF REV



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What CAN Cause an Increase in Millage Rates?

- Increase in the budget amount needed to be funded from ad valorem taxes
- Decrease in net assessed value
- Changes in the homestead exemption law
- Changes in the law granting more ad valorem exemptions
- Granting ad valorem exemptions



WHO PAYS THE TAXES?

- **BREAKDOWN OF THE AD VALOREM TAX BURDEN**



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TOTAL STATEWIDE ASSESSED VALUE IN 2017

FY 2017	TOTAL ASSESSED VALUE	% OF TAX BURDEN
CLASS I (SINGLE FAMILY OWNER OCCUPIED RESIDENTIAL REAL PROPERTY)	\$ 7,256,109,994	24%
CLASS II (ALL REAL PROPERTY NOT CLASS I)	\$ 10,223,821,404	34%
CLASS III (BUSINESS PERSONAL PROPERTY INCLUDING MOBILE HOMES)	\$ 5,180,732,182	17%
CLASS IV (PUBLIC UTILITY PROPERTY)	\$ 3,193,084,773	11%
CLASS V (MOTOR VEHICLES)	\$ 3,991,295,711	13%
TOTAL	\$ 29,845,044,064	
DATA PROVIDED BY JEFF FORMAN (MS DEPT OF REVENUE)		

- AD VALOREM CONCERN
- CHANGES IN HOMESTEAD APPLICATIONS



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- WHAT CAN CHANGES IN HOMESTEAD EXEMPTION APPLICATIONS INDICATE?
- % CHANGE INDICATES THE GROWTH OR LACK OF GROWTH IN THE NUMBER OF HOMEOWNERS
- % OF SPECIAL HOMESTEADS INDICATES THE AGE AND HEALTH OF HOMEOWNERS



- NOTE: ALL DATA WAS OBTAINED FROM THE DOR ANNUAL REPORT AND IS ASSUMED TO BE ACCURATE



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STATEWIDE HOMESTEAD APPLICATION COMPARISON

2005-2016

YEAR	2005	2016	PERCENT CHANGE
TOTAL HOMESTEAD APPLICATIONS	672,217	664,417	-1.16%
SPECIAL HOMESTEAD APPLICATIONS	250,468	283,462	13.17%
% OF SPECIAL HOMESTEAD APPLICATIONS	37%	43%	

- **The county tax assessor is responsible to appraise classes 1, 2, and 3.**
- **The Mississippi DOR is responsible to appraise classes 4 and 5.**



TERMINOLOGY

UPDATE

Update – the process that each county must complete every four years in which every parcel is closely inspected to determine whether changes have occurred. All parcels must be revalued during the update cycle.



TERMINOLOGY

UPDATE

Update Cycle – the update cycle is the four year period commencing with the base year and ending with the update year.

Update Year – the last year of the county's 4 year cycle.



REAL PROPERTY TERMINOLOGY

Maintenance

The annual process of adding new properties to the tax roll, adding additions to existing properties on the tax roll, and deleting structures from the tax roll which have been removed from existing parcels.



How Municipal Officials Can Assist the Assessor?

- **Make it a policy to always give the assessor a copy of all building and demolition permits.**
- **Provide the assessor with all sale prices of property sold within the city limits**
- **Give the assessor copies of fire reports**
- **Make available to the assessor information on water and any other utility bills the city may provide**
- **Provide the assessor with copies of all privilege license issued by the city**



For more information

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