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Challenging Assessments


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By J. Michael McTernans

It is that time of year again....and I am not talking about Grandma's Christmas fruitcakes. Everyone who owns real estate in Kenosha County will receive a real estate property tax bill sometime this month. Many of us will choose to pay the entire bill before January 1st in order to claim the deduction in 2015, while others will pay it next year, in installments. If you fail to pay your real estate tax bill by its due date, be prepared to receive significant assessments for interest and penalties. Unpaid real estate taxes (like income taxes) are not typically wiped clean if you file for bankruptcy protection or if the mortgage recorded against your property is foreclosed by your lender. Sooner or later, the government insists on payment in full.

Regardless of the size of your real estate tax bill, it is wise to examine the basis for the government's assessment of the value of your home. You have a right to challenge the accuracy of the assessment every year. Your real estate tax bill is based on the value of your home (calculated by the assessor) as of January 1st of the tax year, and your opportunity to challenge that value is typically in the spring of that year (typically referred to as the "Open Book" period).

As a result, if you believe that the assessed value of your home for 2015 is incorrect, there is little you can do to challenge the resulting tax bill now. But you can challenge future assessments. The assessed value of your home is calculated by comparing your home to the sales prices of comparable properties. If you think your home is worth less than the assessed value, you need to visit your local assessor shortly after the first of the year and find out what "comparable" property sales the assessor is using to calculate your property's value. Armed with this information, you can hire an independent appraiser to prepare an appraisal of your home based on recent sales of like properties in your neighborhood.

While most assessments are accurate valuations of the real estate's value, inaccurate assessments happen all of the time. The foundation for determining the value of real estate must be based and is supposed to reflect the best information that the assessor can practicably obtain, the full value which could ordinarily be obtained for the property at private sale. See Wis. Stat. 73.03(2a).

In most cases, the best information to use in determining a property's value is the price it sold for in a very recent transaction. However, use of the sales price to determine value will be valid only if the real estate sold, recently, in an open market, under conditions that reflect a fair sale.

The following factors are considered in determining whether to accept a recent sale as "market" value: 1. was the real estate exposed to the open market for a period of time typical of the turnover for the type of real estate involved; 2. were both buyer and seller knowledgeable about the real estate market; 3. were both buyer and seller knowledge about the present and future uses of the real estate; 4. was either the buyer or the seller "compelled" to act; 5. was the real estate sold for cash, or under normal financing arrangements that are prevalent in the market; and 6. did the sale price include all of the rights, privileges and benefits of the real estate.

Given the fact that most real estate does not sell every year, when there hasn't been a recent sale of the property, the law directs assessors to look at sales of reasonably comparable properties, properties with characteristics similar to the subject property, which have sold recently in an open market. If there are no reasonably comparable sales, the assessor must then analyze and collectively consider all of the other information available which can be used to estimate the value of the subject value. This would include like sales, the sale of the subject property from the past, whether the property generates income, asking prices, options to purchase, outside appraisals of the subject property, and finally, the assessment of other properties that seem comparable. After obtaining all of this information, the assessor will use these estimates of values and correlate them in to one final value estimate.

As a result, when you open your tax bill this month, take a careful look at the assessed value of your real estate. If you do not feel you can sell your real estate at that price in an arms-length transaction over a period of time that is typical in the market, you should gather up your supporting evidence and challenge your assessment. However, remember that your local assessor wants everyone's real estate to be accurately assessed, as that is the assessor's sole job. If you want to complain about the "mill" rate (the percentage of value that determines your tax bill), direct that concern to your elected state, county, and local government and school districts officials, as they are the ones who determine the percentage of value that gets collected as taxes.

To Own, or not to Own... That is the question.


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Often, I feel that my writings are redundant, but we all have to remember is that there are always "new"potential homeowners...who haven't crunched the numbers and don't know all of the facts which benefit them in "ownership".

If you are renting and you haven't sat down and applied this math to your future, please spend an hour and do so.. Here is a very specific example for you-

Your name is Steve.. You are renting a 2-bedroom lower flat in a 2-unit building with an upstairs tenant. Your present rent is 750.00 per month plus utilities. Sound realistic?

Your income is right at the average in the state of Wisconsin- 52,622.00 per year. You and your wife, Paula, have one child. You would love it if the landlord would fix up the basement so you could set up a ping pong table and play your guitar once in a while, but your landlord doesn't like the expense, so that won't be happening anytime soon.

Just one block from you is a very similar two-unit for sale and the asking price is 105,000.00...

So, here is where the math gets fun and your freedom gets expanded. To make the math easiest, let's assume that you make an offer and, after some back and forth, you end up buying the two-unit listed for the weird price of 103,626.00... (No need to explain- I just want the math to go easier now).. You have a FICO score of at least 580, so you know that you can get an FHA 30 year fixed mortgage with only 3.5% down payment (3626.00)...You end up with a 100,000.00 mortgage (now you know why I came up with the weird purchase price)... With the need to finance 96.5% of the purchase price, you will have to add in mortgage insurance of 1,750.00- with this cost built in to your loan, your APR with an FHA fixed would be 5.432% (as of 12/16 from *bankrate.com*).

(As a side note, did you know there are various programs available from the state to assist with down payments?)

Your payments (principal and interest) will be 570.00 before adding in taxes and insurance. Kenosha's Mill Rate is presently 28.07 on each thousand dollars of property, sothe taxes will be 234.00 monthly... and, insurance will likely be in the range of 50.00 per month- so, your total payment on your new home would be $854.00 PITI (Principal, interest, taxes and insurance). It appears, initially, that you own where you live for only 104.00 per month more than your present rent, but that is only a small part of the story.

First, you now get to collect the rent from the upstairs tenant who is paying 600.00 per month- with the upstairs rented, you are now paying 254.00 per month- 496.00 per month less than you were as a renter.

At the end of the year, you end up being able to deduct the 2807.00 in property taxes and the interest of 4467.00 (at the end of your first year)...with your income of 52,622.00, that could be a savings of 1091.00 off of your income tax bill, just from the interest and principal.. with the tax savings of 90.92 per month, your apartment now costs you 163.08 per month, instead of the 750.00 rent you are presently paying. This column is much too short to delve into all of the tax consequences, but there are so many other considerations, like depreciation, property expense deductions, etc. that meeting with an accountant would be well worth your while, should you embark on this adventure.

In spite of a wild market and a major hit, the Case Shiller Index suggests that over long periods of time, real estate values always appreciate 3.7%.. So, if you hold onto this two-unit for an extended period of time, you could benefit at an average of 3700.00 per year.

If you were in a stable area and this is the case, you are now well in a situation where you make 145.25 per month- Remember, this is based upon "LONG TERM" performance.. Recently, home values took a serious dive, but rest assured, all indicators suggest that they have bottomed out and are on the way up in nearly every market in the U.S.

Considering all of this, Why wouldn't you buy your home. You know what else? As the owner, you can now remodel the basement, put the ping pong table downstairs and play your guitar once in a while.