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NEWS FEATURE



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Two Sides of the Tax Reassessment Debate

Pro: Reassessments Reduce Inequities

By Janet Howard

For decades -- if not forever -- property assessments in New Orleans have been inequitable. We first got a glimpse of the assessment system's rank unfairness when the City of New Orleans posted assessments online several years ago. Subsequently, the Louisiana Tax Commission ordered a reassessment of all properties in the city. The preliminary results of that process are now in, and they confirm the obvious: For years, many properties have been grossly under-assessed.

Whopping increases in assessed value are causing consternation and outrage in many quarters and may bring hardship in some. They are, however, a long overdue remedial measure. The system was utterly inequitable and a hindrance to economic development in New Orleans.

The Louisiana Constitution permits, but does not require, local governments to levy property taxes. When a government exercises this prerogative, it must follow procedures and other mandates set forth in the state constitution and laws. Among these is a requirement that property be assessed at a stipulated percentage of its fair market value. The percentage is 10 percent in the case of all land, 10 percent for residential improvements, 25 percent for utility improvements and 15 percent for commercial improvements.

The Saints

are Coming!

The Saints are Coming!



The rationale for adhering to impartial and uniform standards is quite simple. It makes the assessments fair. When assessors disregard such standards and assign different values to comparable properties, they effectively create different tax rates for taxpayers.

This is exactly what has been happening in New Orleans.

Consider the case of two taxpayers, each owning homestead-exempt properties with a fair market value of \$200,000. In 2007, Taxpayer A's property was on the tax rolls at that value; Taxpayer B's was recorded at \$100,000. As a result, Taxpayer A paid \$2,268 in taxes, but Taxpayer B paid only \$516. The effective rate for Taxpayer A was 113 mills, while the effective rate for Taxpayer B was 26 mills.

In effect, Taxpayer A subsidized Taxpayer B by picking up a disproportionate share of the tax burden. Fair assessments would redistribute the burden so that the two homeowners with properties of equal value would pay the same amount of tax. In a revenue-neutral situation, a tax-rate decrease would put the tax bill at an amount somewhere between what each is paying now.

Despite the decrease in the tax rate, some will still pay more due to fair assessments. These taxpayers can find a silver lining not only in the equitable treatment of their neighbors, but also in the fact that they themselves have already enjoyed the benefits of years of past under-assessment. There are other benefits. For example, a lower tax rate will help to attract and retain businesses, many of which will generate new sales taxes to help pay for city services.

Some people think the old system of negotiated assessments resulted in a Robin Hood kind of rough justice. False. Uneven assessments do not correlate in any observable way to economic status or need. Wealthy people who have lived in their homes for many years pay taxes at an effective rate far below those of struggling first-time homebuyers and less affluent, but more mobile families. The latter groups pick up the tab, regardless of socio-economic status. And, unless assessments are equalized, families moving from storm-ravaged neighborhoods to homes in safer areas will carry a heavier tax burden than their more fortunate neighbors who already live there.

Property tax is a tax on wealth, based on the value of an asset. In its purest form, it operates independently of the owner's financial situation. This can create difficulties for individual property owners, particularly when property values escalate significantly.

Louisiana law already shields homeowners from the full impact of property taxes. The homestead exemption shields the first \$75,000 of fair market value from taxation. Assessment freezes protect elderly homeowners making less than approximately \$60,000 a year and certain disabled homeowners from tax increases due to increases in property values. Louisiana law also places a greater burden on businesses, which pay taxes on improvements at a higher percentage of assessed values.

Other states have limited the impact of property taxes by capping individual assessment increases and overall growth in assessments. Such arbitrary limitations create serious distortions and should not be considered lightly.

In dealing with the current situation, it is important to remember that the increase in assessed values is not attributable solely to changes in market value since the last assessment. In many cases, it includes value that had been omitted from the tax base. While



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the pain is real, the reassessment is not imposing a new burden. It is removing an unwarranted tax break.

Voters chafing under tax increases should focus more attention on the scope and administration of exemptions that collectively remove a significant amount of property from the tax roll. These include the nonprofit exemption and tax breaks proposed for specific projects in the name of economic development. Like under-assessments, these breaks can pass on significant burdens to other taxpayers. The Industrial Development Board of New Orleans currently has pending 31 applications to abate taxes for a wide range of properties. Recently approved or pending applications abate or would abate taxes for major national retailers, hotels, upscale residential and retail developments, and affordable housing developments already receiving substantial subsidies from other sources. As in the case of under-assessments, subsidies for these developments -- whether warranted or not -- cost other citizens through a transfer of the tax burden.

Citizens are entitled to accurate assessments, administered through a principled and transparent process, with an efficient, objective system for appeals. Taxpayers who believe their property is incorrectly assessed should challenge their assessments. Those who believe that the law distributes the tax burden unfairly or creates undue hardships should seek specific changes to the law. Inequities are not addressed when assessors adjust the relative tax burden by setting some assessments at an artificially low level. On the contrary, new inequities are created.

Janet R. Howard is president of the nonpartisan, nonprofit Bureau of Governmental Research.

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