

## *How Property Taxes are Calculated*

### **ELEMENTS OF THE PROPERTY TAX**

The principle elements of the property tax consist of the tax rate and the tax base. The tax base is calculated by first appraising the value of property according to statutory requirements to determine “taxable value.” “Taxable value” in turn is multiplied times the level of assessment. The resulting assessed value is the tax base against which a tax rate is applied to determine the total amount of taxes due. The elements of the property tax can be shown in this simple formula:

Taxable Value x Level of Assessment = Assessed Value  
Assessed Value x Tax Rate = Total Property Tax

### **ELEMENT ONE: TAXABLE VALUE**

The Constitution of Nevada provides the first guidance in how taxable value will be determined. Article 10, § 1 states:

1. The legislature shall provide by law for a uniform and equal rate of assessment and taxation, and shall prescribe such regulations as shall secure a just valuation for taxation of all property, real, personal and possessory, except mines and mining claims, which shall be assessed and taxed only as provided in section 5 of this article.

In 1981, the Legislature determined that a just valuation of real property should no longer be based strictly on the full cash value of the total property. Instead, the value of real property was bifurcated into two components: full cash value of the land and replacement cost new less depreciation of the improvements, with the rate of depreciation set by statute. The resulting “taxable value” must not exceed the full cash value of the entire property. (NRS 361.227). Full cash value is defined as “the most probable price which property would bring in a competitive and open market under all conditions requisite for a fair sale.” (NRS 361.025).

### **ELEMENT TWO: LEVEL OF ASSESSMENT AND ASSESSED VALUE**

The level of assessment is also known as the “rate of assessment” and is generally expressed as the overall ratio of assessed value to taxable value. Whether assessments are at full value or a proportion thereof is usually a constitutional or legislative policy decision.

In Nevada, NRS 361.225 requires that all property subject to taxation be assessed at 35 percent of its taxable value. For example, restating the formula expressed in NRS 361.225:

Taxable Value x Level of Assessment = Assessed Value

If the taxable value of a single family residence was estimated at \$200,000, the assessed value would be \$70,000 ( $\$200,000 \times .35 = \$70,000$ ).

## **ELEMENT THREE: THE TAX RATE**

The State of Nevada Constitution, Article 10, section 2, limits the property tax rate to 5 cents per \$1.00 of assessed value, which translates to \$5.00 per \$100 of assessed value. In the 1979 session, the Nevada Legislature set the property tax rate at no more than \$3.64 per \$100 of assessed value, where it remains to the present, plus \$.02 not subject to the cap.

Pursuant to NRS 354.59811, local government entity property tax revenues are allowed to be increased by a maximum of 6% per year. The previous fiscal year's property tax revenue is multiplied by 106%. This amount is then divided by the projected assessed valuation for the upcoming fiscal year to determine the tax rate necessary to generate that amount of revenue. The NRS also provides for a "hold harmless" scenario, in which the new calculated tax rate cannot be less than the previous fiscal year's rate.

The tax rate includes, but is not limited to the following elements:

### **School Operating Rate**

Pursuant to NRS 387.195, each county board of commissioners shall levy a tax of \$0.75 per \$100 of assessed valuation for the support of public schools within the county.

### **General or Special Improvement Districts**

The majority of general improvement districts in the State of Nevada were created pursuant to the provisions of NRS 318. Some have been established under Special and Local Acts of the Legislature. Depending on the primary purpose for their existence, many of these districts have and exercise property taxing authority.

### **Legislatively Approved Overrides**

At various times the Legislature has enacted additional property taxes to fund a number of particular programs on a statewide basis. For example, NRS 428.185 provides for each county to levy a property tax of 1.5 cents per \$100 of assessed valuation to fund the costs of providing medical treatment to indigent persons injured in automobile accidents. NRS 549.020 provides for a levy of not less than 1 cent per \$100 of assessed valuation to fund cooperative extension work in agriculture and home economics.

### **Voter Approved Overrides**

Pursuant to NRS 354.5982, a local government may exceed the limitations of 354.59811 by proposing an additional property tax levy. The proposal must be placed on a general or special, but not primary election ballot. The question must state the proposed additional rate, the purpose, duration of the additional levy and an estimate of the amount of annual increase to the property tax bill for the owner of a new home with a fair market value of \$100,000. The duration of the levy, if approved, cannot exceed 30 years; and may be discontinued before it expires. For example, on 11/7/2000, the citizens of Churchill County approved an override of 2 cents for 7 years to fund purchases of fire equipment.

## State Debt Rate

Pursuant to AB371, an initial property tax of 5 cents per \$100 of assessed valuation was levied for state purposes. In the ensuing years, the rate has fluctuated somewhat, depending on the state's need to fund debt service on its capital improvements projects throughout the state. At the present time, the state debt rate is 15 cents per \$100 which is included in the statutory cap; and 2 cents, enacted by SB507 (2003), which is outside the cap. 1 cent is added to the "regular" 15 cents; while the second penny is used to fund the debt service for bonds issued specifically for state projects for the conservation of the state's natural resources.

## Process to Establish Rate if Combined Tax Rate Exceeds the Statutory \$3.64 Cap

Pursuant to NRS 361.455, the chairman of the county board of commissioners convenes a public meeting of a majority of the governing boards of all affected local governments on or before June 13 of each year for the purpose of establishing a combined tax rate which conforms to the statutory limit. After discussions regarding changes to tax rates, each affected governing board must unanimously approve the changes. Immediately following the meeting the county clerk advises the Department of the results. If no agreement can be reached, or no quorum exists for one or more of the affected local government entities, then the Department reviews the record of the discussions and the budgets of the affected entities and makes a recommendation to the Nevada Tax Commission.

The Nevada Tax Commission is mandated statutorily to meet on June 25 each year to certify the property tax rates for the succeeding fiscal year. Prior to the certification vote, the Commission will determine the property tax rates for the entities in any county which exceed the statutory cap; considering any local government testimony and the Department's recommendation. Any local government entity affected by a tax rate adjustment made by the Commission files a copy of its revised final budget by July 30.

## **CENTRALLY-ASSESSED PROPERTY**

There are three categories of property valued by DOAS:

1. Utilities: Companies having property of an interstate or inter-county nature, including electric, gas, distribution, telephone, airlines, railroads, and carlines.
2. Mines: Improvements and personal property are valued by DOAS, but the land is valued by county assessors.
3. Net Proceeds of Minerals: in lieu of a property tax on mineral ores, the value of the mineral ore is established after it is mined and processed.

## **UTILITIES**

A system value for all property used by a company is established for utilities. The system value includes property throughout the United States, and a portion is then allocated to Nevada using formulas. Once the Nevada allocated value is determined, the assessment rate is applied to determine the assessed value. After the assessed value is determined, it is apportioned among various jurisdictions by formula, using data reported by the companies. The tax rate is then applied to the assessed value to determine the taxes due. The taxable value of mine property is established through a more simple process, by determining the replacement cost new,

less depreciation of the property. (See Elements of Property Tax discussion above for details of how taxes are calculated) Net Proceeds of Minerals are determined by subtracting certain allowed expenses from the gross yield to obtain the net value of the mineral ore.

Once the value is determined for utilities and net proceeds, the Division calculates, bills, collects and distributes the tax. The Division, however, only establishes the value for mine property. That value is then transmitted by hardcopy to counties. Counties assume the billing, collection, and distribution functions at that point for mine property.

For any particular time period, DOAS is estimating value for a subsequent tax year at the same time it is billing for the current year and collecting and distributing for the prior year.