

IMPACT OF DIFFERENTIAL ASSESSMENT ON THE OKLAHOMA PROPERTY TAX BASE

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Property tax payments in Oklahoma are dependent on the assessment ratio used by the county assessor. Recent ruling by the State Supreme Court have mandated the equalization of assessment ratios among the seventy-seven counties of Oklahoma. If a single, uniform assessment rate is used for all classes of property, the effect will be to shift a substantial portion of the tax burden to rural property owners. This paper examines an alternative strategy that is consistent with the state constitution, but which would maintain the present relative share for each class of property owner.

The findings of the study suggest that an equalization policy in which all non-rural property is assessed 20% of its market value and all rural property at 15% of its value would increase the total tax base by more than one-half billion dollars, but would cause little adjustment in the relative tax burden of each property class.

The property tax that each property owner pays in Oklahoma is dependent on four parameters. These are the appraised value, the assessment rate, exemptions allowed, and the millage rate (1). The assessor determines the first three while the latter is fixed by the County Excise Board. During the past two years the statutory and/or administrative procedures to be used by county assessors in Oklahoma in the determination of each of the above mentioned items have changed. An examination of the impact of these changes on the tax base and the distribution of the tax burden is needed. This paper will examine the impact of potential changes in assessment rates used by county assessors. Previous studies have analyzed the impact of changes in exemptions allowed and appraisal techniques (2, 3).

In Oklahoma it is the responsibility of the county assessor to determine the net assessed value of all taxable property other than public service property, which is assessed by the Oklahoma Tax Commission. The aggregate of all net assessed values is commonly called the tax base. As long as millage rates remain relatively stable, any change in the tax base results in a change in tax revenue. Therefore, it is important to examine the procedures by which the tax base is determined and to evaluate the impact of changes in these procedures on the magnitude and composition of the tax base.

The first task of the county assessor is to determine the appraised value of property in the county. A recent Constitutional amendment has changed the basis for this valuation from market value to use value (3). At the present time neither a conceptual nor an operational definition of use value has evolved.

The second task of the assessor is to assess property at some fixed rate. Assessment means the assessor multiplies the appraised value of property by a constant percentage rate to determine the gross assessed value. This rate is commonly referred to as the assessment rate. In order to provide horizontal equity in the property tax burden across county lines the State Board of Equalization is required to certify each year that the assessment rates used in all of the counties are more or less equal. However, in recent years the State Equalization Board has not enforced this Constitutional requirement and a high degree of assessment rate variation among counties has developed.

In the spring of 1975 the State Supreme Court ruled that the State Equalization Board must equalize assessment rates among the counties. At the present time several committees working through the Governor's office are attempting to develop a policy that will satisfy the Court and not disrupt the local tax base. Any decision

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by the State Equalization Board will certainly affect the tax base of individual counties, particularly those that are assessed at rates well below whatever equalized rate is established by the Board. In the subsequent sections of this paper the impact of alternative policies that may be implemented will be examined.

The third task of the assessor is to compute the exemptions allowed the property owner. The 1974 Legislature allowed additional exemptions for the elderly poor which will have the effect of reducing the aggregate size of the tax base (2).

METHODS

The net assessed value or tax base in each county i may be computed as

$$[1] \quad v_i = \sum_{n=1}^m (U_{in} R_{in}) + P_i \quad \text{Eq. 1}$$

where:

V_i = total net assessed value in county i

U_{in} = total appraised value of each class of property n

R_{in} = assessment rate used for property class n

P_i = public service assessments.

At the present time, most assessors implicitly use different assessment rates for rural and urban property even though the State Board of Equalization has not instructed them to do so. However, the classification of property into classes according to use for differential assessment is constitutional and is being considered by the State Board of Equalization. Therefore, in Equation 1 both U and R include a subscript for use category. If property were classified according to use, then the State Equalization Board would be free to stipulate different assessment rates for different use categories.

If appraised values (U) are known, and public service assessments by the Oklahoma Tax Commission remain constant, then the tax base for each county implied by a set of differential assessment rates (R_{in}) may be estimated by use of Equation 1. Unfortunately, the appraised values used by assessors are not published. In fact, assessors are not required to maintain records showing appraised values upon which they base their assessments. However, it is possible to estimate the appraised values used in each county by means of a ratio study which shows the ratio between sales values of recently traded properties and the assessed values shown on the assessor's books. That is,

$$U_{in} = V'_{in} / R'_{in} \quad \text{Eq. 2}$$

where:

V'_{in} = the estimated total net assessed value in county i for use category n

R'_{in} = the estimated average assessment in rate.

The assessment ratio estimates used in this study were computed for both rural and urban land so that Equation 2 may be applied to each (4). Estimated urban property values are further classified into residential (both owner-occupied and rental and commercial/industrial categories to provide greater detail in the analysis (5). The values obtained by Equation 2 are estimates of market valuations rather than of use valuations. Adjustment to use values is made for rural property using ratios estimated by the author based on the results of a regression analysis of the determinants of rural property values (6). It is assumed that use value and market value are the same for urban property. While there are certainly some cases in which this assumption will be violated, it probably is valid for the great majority of urban properties. The estimated use appraised values thus obtained are used for U_{in} in Equation 1 to estimate the tax base for each county by use categories assuming alternative vectors of differential, equalized assessment rates (R_{in}).

RESULTS

The procedures described above were used to estimate the impact of alternative assessment procedures on the tax base in each county of Oklahoma in 1974. In evaluating the impact of alternative differential assessment rate packages, two criteria may be noted: the size of the tax base, and the distribution of the tax burden among the different classes of property. The estimated effect of several alternative sets of assessment rates may be compared to the actual tax base for Oklahoma in 1974 (Table 1). All data in Table 1 are state totals obtained by summing individual estimates for each county (3). The second and third lines of Table 1 show the effect of equalizing assessment rates at a uniform rate for all use categories. Uniform equalization at 15%

TABLE 1. *Estimated tax base and distribution of burden among use categories at alternative assessment rates: Oklahoma, 1974*

Assessment rates			Total tax base (\$ millions)	Percentage distribution of tax base			
Rural	Residential and rental	Commercial-industrial		Rural	Residential and rental	Commercial-industrial	Public service
Actual	Actual	Actual					
1974	1974	1974	\$4,426	16.3	40.1	20.9	22.7
15%	15%	15%	\$4,205	20.1	35.0	21.0	23.9
20%	20%	20%	\$5,495	21.0	39.3	21.4	18.3
10%	20%	20%	\$4,879	11.0	44.2	24.1	20.6
15%	20%	20%	\$5,187	16.3	41.6	22.7	19.4
15%	20%	25%	\$5,481	15.4	39.4	26.8	18.4
20%	20%	25%	\$5,789	19.9	37.3	25.4	17.4

would reduce the total tax base from its present level while uniform equalization at 20% would increase it. In either case, the relative burden of rural property owners would increase, offsetting decreases in residential relative burdens.

The fourth and fifth rows of Table 1 show the impact of a differential assessment procedure that gives preferential treatment to rural property owners. In both cases, all other assessment rates are assumed to remain at 20%. Such treatment is afforded rural property owners in many states in recognition of the heavy burden property taxes impose on rural property owners relative to annual incomes, and the tendency of the market to over-value agricultural land relative to its productive potential.

In both cases of differential assessments the estimated total tax base is greater than its present level owing to an increase in the average assessment rates for residential and commercial property. The relative burden of rural property owners would fall with preferential assessment at 10% and would remain at its 1974 level with a system of 15% for rural property and 20% for all other property. The burdens are reduced for rural property owners and are shifted to residential and commercial property owners.

The last row of Table 1 illustrates how a policy designed to impose a relatively higher assessment rate on commercial-industrial property would affect the tax base. Policies of this sort are often recommended because it is felt that property taxes on commercial property constitute a fixed cost of doing business which cannot be passed forward to the consumer, but instead become a tax on profits. Assessment of commercial property at 25%, while all other property is assessed at 20%, would increase the total tax base about \$300 million above what it would be with uniform rates at 20%. The relative burden of commercial property owners would increase to 25.4% of the total tax base, with the reductions being proportionately distributed among the other use categories.

DISCUSSION

Assessment practices used to determine the ad valorem tax base in Oklahoma are certain to change as a consequence of the State Supreme Court ruling that the State Equalization Board must equalize assessment rates among counties. Uniform equalization of assessment rates will redistribute the tax burden from residential to rural property owners. If present relative burdens are to be maintained, differential assessment practices that are preferential to rural property owners must be instituted. The analysis contained in this paper is designed to estimate changes in the tax structure that may be associated with alternative assessment procedures. The questions of what should be and what will be remain to be answered.

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