

Rollback Question & Answer

Q1: What is the rollback?

A: The rollback is a fraction, a simple math problem – taxable value divided by assessed value. **Think of the rollback as the percentage of a property's assessed value that is subject to property tax.** For example, if the residential rollback is 50%, you will owe property tax on 50% of your home's assessed value. In other words, only \$50,000 of a \$100,000 home would be taxable.

Q2: Is the rollback the same for all types of property?

A: No. Each of the major classes of property (agricultural, commercial, industrial and residential) has its own rollback.

Q3: Is the rollback the same every year?

A: No. **The rollback can change annually.** The change depends on the market for each class of property (the growth in the housing market, for example) and the statutorily imposed assessment limitations.

Q4: OK, so how is the rollback determined?

A: Let's start by explaining the difference between assessed value and taxable value. Assessed value is the actual market value of a property, according to the assessor's best estimate. It is intended to be an estimate of the selling price a property could demand on the market. Taxable value is the portion of a property's assessed value that is actually subject to property tax. Taxable value is never more than assessed value. Taxable value can equal assessed value, but it can also be less than assessed value because of exemptions, credits and the rollback.

Now let's talk about assessment limitations. **The assessment limitation law causes the rollback.** It says that the total taxable valuation in each class of property (agricultural, commercial, industrial and residential) cannot increase by more than four percent in any given year. For example, if total taxable residential value is \$1 million in Year A, the assessment limitation law says that total taxable residential value cannot exceed \$1,040,000 (\$1 million plus 4%) in Year B. **Assessment limitations restrict the growth in taxable value to 4 percent; the rollback comes into play when assessed values grow by more than 4 percent.** Let's expand our example to see how the rollback is determined.

In Year A, taxable residential value is \$1 million and assessed residential value is \$2 million. That means that in Year A the residential rollback is 50% (\$1 million divided by \$2 million). In Year B, let's assume that because of a strong housing market assessed residential value increases 10% to \$2,200,000. The assessment limitation law says that taxable residential value can only increase 4% to \$1,040,000. So how do we calculate the rollback for Year B? Look back at question one. It's a simple math problem – taxable value divided by assessed value. Doing the math (\$1,040,000 divided by \$2,200,000) gives us a rollback for year B of 47.27%.

But here's the first tricky part of the rollback system: **assessment limitations only apply to increases in the value of existing properties;** they do not limit the increase in value due to new construction. The rollback applies to new construction, but the new construction isn't figured into the calculation of the rollback. In our example, let's assume there was new construction amounting to \$200,000 of assessed value. This is in addition to the \$200,000 increase in the assessed value of existing properties. The rollback of 47.27% would be applied to the new construction, and the resulting

taxable value of \$94,540 (\$200,000 multiplied by 47.27%) would be added to the taxable value of existing property (\$1,040,000) to give us total taxable valuation of \$1,134,540 in Year B. The rollback would still be 47.27% (\$1,134,540 divided by \$2,400,000).

Q5: What is this agricultural/residential tie I keep hearing about?

A: This is the next tricky part of the rollback. In addition to the 4% limitation on taxable valuation growth in each property class, **residential growth and agricultural growth are “coupled,” or tied together. That means that taxable value growth in one class of property cannot exceed that in the other class of property.** (One exception: if either agricultural or residential property experienced negative growth, the other class would be limited to zero growth; it would not have to go negative.) Let’s look again at our example above. In addition to assessed residential value growing by ten percent, let’s assume assessed agricultural value grows by one percent. We already know that the assessment limitation would reduce taxable residential value growth to 4 percent. (The assessment limitation would not affect agricultural value because assessed agricultural value growth is less than the allowed 4 percent.) But **the “coupling” law says the growth in taxable residential value cannot exceed the growth in taxable agricultural value** (and vice versa). In this case, taxable residential value growth would be further restricted to 1%, matching the growth in agricultural value. In our example, the taxable value of residential property would be \$1,010,000 (\$1 million plus 1%) and the rollback for residential property would be 45.9% (\$1,010,000 divided by \$2,200,000). You can see that **the tie between residential and agricultural valuation growth results in lower taxable value and a lower rollback.**

Q6: When did the rollback start?

A: The assessment limitation law first went into effect in 1978. The law initially limited the annual increase in the taxable value of agricultural and residential property to six percent. One year later, the assessment limitation was expanded to include all classes of property. In 1980, the limitation was lowered from ten percent to eight percent for utility property and from six percent to four percent for all other property classes.

Q7: Why was the rollback created?

A: The original intent of the assessment limitation law (and the resulting rollback) was to **shield agricultural and residential property owners from significant inflationary increases** in the value of their property and thus in their property taxes. When the assessment limitation was enacted, inflation was nearing double digits.

Q8: Hasn’t the residential rollback always been around fifty percent?

A: No. The table below shows the rollback (as a percent) for each class of property since its inception.

Year:	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Res:	78.3	64.4	66.7	64.8	67.2	69.9	72.5	75.6	77.4	80.6	80.6
Ag:	96.2	94.7	99.1	95.7	99.6	86.5	90.0	93.6	100	100	100
Com:	NA	89.0	93.2	87.8	91.6	91.7	95.4	98.8	100	100	100
Ind:	NA	100	100	97.0	100	97.5	100	100	100	100	100

<u>Year:</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Res:	79.8	79.5	73.1	72.7	68.0	67.5	59.3	58.8	54.9	56.5	54.9
Ag:	100	100	100	100	100	100	100	100	96.4	100	96.3
Com:	100	100	100	100	100	100	97.3	100	98.8	100	97.8
Ind:	100	100	100	100	100	100	100	100	100	100	100

<u>Year:</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Res:	56.3	51.7	51.4	48.5	48.0	46.0	45.6
Ag:	100	100	100	100	100	100	100
Com:	100	97.8	100	99.3	100	99.2	100
Ind:	100	100	100	100	100	100	100

As you can see, ***there has been a precipitous and consistent decline in the residential rollback since about 1990.*** Meanwhile, all other classes have maintained rollbacks at or near 100% since the inception of the assessment limitation.

Q9: So does that mean there is less taxable residential value now than in 1990?

A: No. A decrease in the rollback from one year to the next does not mean that taxable residential value is lower; it means that *the percent at which residential value is taxed* is lower. Look back to our example in question four. In Year A the rollback is 50% and there is \$1 million of taxable residential value. In Year B there is an increase of \$40,000 of taxable residential value (before new construction) and the rollback drops to 47.27%. The rollback only goes down when the growth in assessed value is greater than the growth in taxable value. In other words, ***the rollback goes down because assessed value goes up, not because taxable value goes down.***

In fact, under the current rollback system, it is unlikely that there will ever be negative growth in taxable residential valuation statewide. It would take nearly 20 consecutive years of zero growth in the housing market (assessed value) before the taxable residential value would be in jeopardy of declining.

Q10: Wait a second. My county saw negative growth in taxable residential value in 2003. What gives?

A: Ah, you've hit on yet another tricky aspect of the rollback system: the rollback applies uniformly statewide. All residential property, from Council Bluffs to Dubuque, gets the same rollback. A significant problem with uniform application is that there are very different housing markets around the state. Assessed residential values are not increasing at the same rate in Decatur County as they are in Polk County. ***Uniform application of the rollback penalizes low-growth areas and rewards high-growth areas.***

Let's use actual data from the 2003 assessment year as our example. Statewide, assessed residential values were up 6% and assessed agricultural values were down 19%. Because of the assessment limitation and the tie between agricultural and residential properties, taxable residential value growth was held to zero. The residential rollback declined that year from 51.4% to 48.5%, wiping out the 6% growth in assessed value. Now let's look at the effect of that declining rollback on individual counties, starting with Polk.

In 2003, Polk County saw assessed residential value go up 10%. The reduction in the rollback wiped out 6% of that growth, leaving taxable residential value up 4 percent. Even though there was zero increase in the taxable value of existing residential property statewide, there was a 4% increase in Polk County. After accounting for new construction the increase was over 7%. Calhoun County was at the other end of the

spectrum. In 2003, assessed residential value in Calhoun County decreased by 7%. Then the rollback took off another 6%, leaving taxable residential value in Calhoun County down 13% from 2002. There was barely any new construction value to boost that total. These two starkly contrasting counties highlight the rollback's disparate treatment of low-growth versus high-growth communities. ***While the statewide effect of the declining rollback in 2003 was to hold taxable residential value growth to zero, the effect on individual counties varied greatly.***

Q11: How does the rollback affect the tax burden?

A: That depends on from whose perspective you choose to answer the question. If you are a residential property owner, the rollback positively affects your tax burden; i.e., the rollback reduces the percent of taxes paid by you and other homeowners. However, the rollback increases the percent of taxes paid by all other property owners. Consider these numbers from assessment year 2005 (FY 2007):

<u>Class</u>	<u>Assessed Value</u>	<u>% of Total</u>	<u>Taxable Value</u>	<u>% of Total</u>
Agricultural	\$21.4 billion	13%	\$21.4 billion	20%
Commercial	\$24.6 billion	15%	\$24.4 billion	23%
Industrial	\$4.0 billion	2%	\$4.0 billion	4%
Residential	\$103.6 billion	64%	\$47.6 billion	45%

In 2005, the latest year for which data is available, the residential rollback is 46.0%; all other property classes are at or near a 100% rollback. The table above shows that residential property accounts for 64% of all assessed value, but only 45% of taxable value. The rollback essentially wiped \$56 billion of residential property value off the tax rolls. Agricultural, commercial and industrial property, on the other hand, all have greater shares of taxable value than of assessed value, specifically because the rollback's benefit to residential property has to be paid for by the other property classes. ***The bottom-line effect of the rollback is that it causes residential property owners to pay lower taxes, and everyone else to pay higher taxes.***

If you have more questions about the rollback, or anything else in this article, please contact Jay Syverson at jsyverson@iowacounties.org.