

Property Tax Assessment in Iowa

2022 Update



The **property tax assessment process** in Iowa is a complex state regulated system, prescribed in *Iowa Code*. Cities do not control this process. In fact, assessments are a completely separate process completed by assessors with the goal of establishing equitable, fair market value. As such, assessments are separate from local revenue needs. Property tax rates are determined after cities determine revenue needs for providing local services.

Taxable value is the portion of the assessed value on which a tax is applied, after equalization, rollbacks, and tax rates are determined, and credits and the results of any appeals are applied. Arriving at a taxable value for a given property takes several steps, and joint efforts by the local assessors, county auditors, and the State. Here is more detail:

Property taxes tax “real property” such as land, buildings, structures, and improvements on the land.

These include five classes of property: residential, commercial, industrial, agricultural and utilities/railroad. All are assessed at the city or county level every other year, except annual state level assessment for utilities/railroad. There are a variety of types of property that are considered exempt or partially exempt from property taxes, or that receive credits to property tax.



How does the assessment process work? The assessor estimates the assessed value of each property (actual or market value) for most properties. This is NOT the final taxable value.

How is this determined? Typically, the assessor uses a blend of three approaches to value: market, cost, and income. Note: agricultural property follows a separate model based on productivity and earning capacity.

Market Approach → Examines recent sales for comparable property

Cost Approach → Estimates cost of labor and materials required to replace property

Income Approach → Estimates a property’s ability to produce income and capitalize this into an estimated value



Equalization is applied. The State requires that assessments of all taxable properties per classification be totaled together. The State then applies the equalization process every other year to ensure values are comparable among jurisdictions. In brief, this involves a state comparison of assessor abstracts to a “sales assessment ratio study.” If this study is 5% or more above the median ratio of the sales ratio study, the State changes the assessment to reach 100% of actual value. This is applied by property class, and at the jurisdiction level, not the individual property nor statewide basis.

at 90% of its assessed value. Residential and agricultural property have a “tie” or “coupling” mechanism in place, which limits the growth in assessment of either class to either 3% or the lesser of the growth in either class whichever is lower. This is done on a statewide basis, and does not apply individually to an individual home or property. Therefore, individual homes may increase or decrease in revaluation by more or less than the 3% level.



Rollback is applied. Every year, the assessment limitation or “rollback” is applied. Each property classification has a rollback that limits property taxes in that classification. Historically, this was implemented for the purpose of guarding against volatile taxes due to inflation, particularly for residential property. Currently, commercial, industrial and railroad property is taxed



Tax rates are established. Most property is taxed by more than one taxing authority (for example, city, county, K-12 schools, etc.). Therefore the budget process and tax rate calculation will comprise a cumulative tax rate.

- Credits are subtracted.
- An appeals process specified by State law follows new assessment notifications.



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Who pays/how much?

Chart A shows revenue of dollars collected from each property classification in Iowa.

Property Tax Revenues by Class FY23:

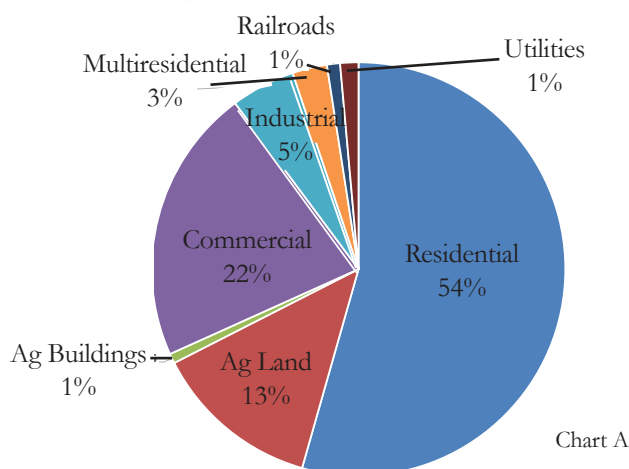


Chart A

So, can the tax bill on a house rise by more than 3%?

Yes. While the statewide rollback limits residential property to a 3% maximum increase, this is for statewide residential property collectively. An individual property can rise more than 3% in its assessed or taxable value.

If a property tax assessment went up by 8%, does that mean my tax bill will, too?

No. The equalization and rollback limitations are applied, as well as any eligible credits deducted, before the final individual tax bills are generated.

Who receives property tax revenues?

Schools, cities, and counties receive the largest property tax amounts, though other entities such as hospitals, assessors, ag extension districts, community college districts, and townships receive some funds.

Chart B shows the state average percentage of property tax revenue that flows to each type of local jurisdiction. As noted, cities receive approximately 30% of local property tax revenues.

Share of Property Tax Revenues by Tax Authority FY2023

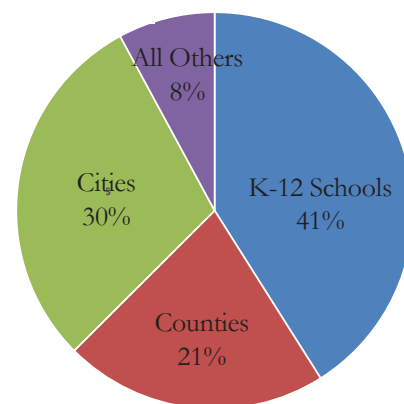


Chart B

Below, on the left, is an example of how homeowner tax bills are calculated. On the right, the city levy is isolated to show the portion of revenues the city receives.

Here's a sample of a homeowner tax bill:

| | |
|---|---|
| ➡ | \$200,000 Assessment (residential home/land) |
| ➡ | State equalization process in that jurisdiction results in no change (assumption) |
| ➡ | 54.1302% rollback applied(FY23) (the math: $\$200,000 \times 0.541302 = \$108,260$ (state sets changes each year) |
| ➡ | \$108,260 becomes the taxable value |

Here's a sample of what a portion the city receives:

| | |
|---|---|
| ➡ | Assume consolidated tax rate of \$32.18/\$1,000 taxable value |
| ➡ | (the math: $(\$108,260/1,000) \times \$32.18 = \$3,484$) |
| ➡ | Homestead credit is eligible for this property (assumption) – subtracts \$156 (the math: $(\$4,850/1,000) \times \32.18) |
| ➡ | Assume no add'l exemption/credits for sample |
| ➡ | Total tax bill (year): the math: $\$3,484 - \$156 = \$3,328$ |
| ➡ | Paid twice per year @ \$1,664 per installment ($\$3,328/2$) |

| | |
|---|--|
| ➡ | Assume city tax rate of \$12.03/\$1,000 taxable value (simple average) |
| ➡ | (the math: $(\$108,260/1,000) \times \$12.03 = \$1,302$) |
| ➡ | Homestead credit is eligible for this property (assumption) – subtracts \$58 (the math: $(\$4,850/1,000) \times \12.03) |
| ➡ | Assume no add'l exemption/credits for sample |
| ➡ | Total city tax bill (year): the math: $\$1,302 - \$58 = \$1,244$ |
| ➡ | Paid twice per year @ \$622 per installment ($\$1,244/2$) |