What is the Difference between Tax Assessed Value and Market Value?

It is a common issue that most homeowners have when they buy, sell or get their tax bill in the mail a "What is the difference between Tax Accessed Value ("TAV") and Fair Market Value ("FMV")?"

This question and its answer are critical to your understanding why many property owners who appeal their taxes personally fail. This is not a surprise and most county tax appraisers (assessors) do not help the situation. REMEMBER, if you appeal and the basis for your appeal is not acceptable, you are declined and can not come back again for another year!

Fair Market Value is what a property should be able to be sold at in a market that is not under "distress". Distress in this case means not an unusual amount of foreclosures, high or anticipated high unemployment in the region, a toxic waste dump nearby, flood plain, or other "issues: that could cause perspective buyers to look elsewhere for homes.

Appraising a property is a matter of looking at what other, "supposedly similar" properties have actually sold at within a limited area around your home, usually 1/4 to 1/2 mile or, preferably, within your subdivision. I would like to say this appraised value is an accurate estimate of what your home will sell for, but frankly, appraisals are to a large degree a subjective guess. Any appraiser will admit that his appraisal is based on his professionalism in estimating the value of your home but it is still a "best estimate" in his mind. Often two appraisals of the same property can be 10% or more apart. Comparable sales can not take into account the motivation of the seller or the condition of the interior of the property.

FMV is definitely not what your neighbor's smaller home sold for plus an upgrade for your larger property. Most homes are purchased for emotional reasons or the practicality of living close to work or schools, etc. So a homeowner can get an appraisal, estimate his own FMV or ask friends, neighbors and real estate agents to mention a few sources. It is very likely that your personal guess, if supported by actually seeing the inside of properties for sale and ones that have sold and comparing these sales or listings or FSBO's (For Sale By Owners) to your property, is as good, if not better than all those opinions above. For this exercise, let's assume you have decided your property's FMV is $250,000.

If the FMV is $250,000 what should the Tax Assessed Value be? Usually, the County Tax Assessor has a formula based on FMV to compute your TAV. This formula varies greatly from state to state and county to county, but in general it should be 80% of FMV LESS your deductions. Your deductions, where applicable, include exemptions for some or all of the following: widow or widower, senior citizen, handicapped, homesteaded property, veterans, combat injury, paralyzed partially or completely, blindness, and on and on. It is important that every homeowner review the full list of exemptions for his county or have a professional tax appealer do it for you, because each and every exemption is money in your pocket to which you are entitled. Florida has recently increased its homestead exemption from $25,000 to $50,000 per homesteaded household. This roughly means that the average homeowner will save an additional $350 - $500 a year in taxes.

The tax appraiser uses what he considers your FMV and multiples it by a multiplier of 80% to 90% of FMV. Here is an actual example for Broward County, Florida: FMV (your recent purchase price) of $250,000, TAV without homestead or any other exemption = $212,000 (84.8%). If you homestead your property, the TAX value drops to $162,500, HOWEVER, your School Board Taxable Value changes to $187,500.

If you are a Senior disabled Combat-wounded veteran, age 65, have at least a 10% disability rating, provide proof of combat injury, and a Florida resident at the time of entering the service, your property taxes are $0.00! There are numerous other full exemptions that you or a professional tax appealer should investigate immediately because you may be entitled to huge property tax savings.

If you purchased a home as a short sale or a foreclosure and got a great deal at well below FMV, your purchase price will not be considered as FMV. Instead, the tax assessor will use his "best estimate" based on other properties in the neighborhood. However, he will not take into account the repairs you had to make that could reduce your taxes substantially. Your professional tax appealer will be able to do this for you.

In the years following your home's purchase, the tax assessor determines your assessed value by using a complicated mathematical formula that re-appraises all the properties in the county at one time. It has to be done this way because of the tens of thousands of properties and the minimal staff at the tax assessor's office. In most cases this isn't fair to the homeowner or commercial property owner but fewer than 2% of tax payers officially protest and fewer than 20% of those who do ever get a tax reduction. This is primarily because of a lack of understanding the appeals process and being able to reconstruct the necessary data for a successful appeal; your professional tax appealer can do all this for you.

In summary, the TAV of your home is usually a percentage of its FMV and under usual circumstances this will be 80% to 90% before exemptions. However, for short sale and foreclosure purchases it could be 200+% of your purchase price or more. Consult with a local professional tax appealer to make sure you are paying only your fair share of your property taxes.

About the Author

Dave Dinkel is the President of Homeowners United, Inc. which is an advocacy group dedicated to helping property owners in every way possible. For more information and a free e-book detailing the tax appellate system, go to www.moneybacktoyou.com