

# Welcome to Tiny County, KY



- Tiny County, KY only has 3 residents:
  - Suzy Homemaker who owns a home valued at \$100,000
  - Joe the Plumber who owns personal property valued at \$30,000
  - Judge Less who owns no property

# Meet Suzy Homemaker



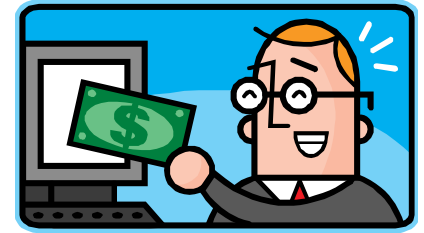
- Suzy owns the only home in Tiny County
- Her home was assessed for \$100,000.
- Last year, her property tax bill for the county was \$100.

# Meet Joe the Plumber



- Joe owns a business in Tiny County
- His only asset is \$30,000 of personal property
  - Trailer, Tools, Computers, Plumbing Supplies, Etc
- Last year his property tax bill for the county was \$45

# Meet Tiny County Judge Less



- Last year, Judge Less collected \$145 on an assessment of \$130,000. His tax rates were
  - \$1.50/thousand for Personal Property
  - \$1.00/thousand for Real Property
- Suzy's tax: \$100,000 (her assessment) / per thousand equals 100 (thousands) \* \$1.00 (tax rate per thousand) equals \$100, her tax for the last year.



–  $\$100,000 / \$1,000 * \$1.00 = \$100$

- Joe's tax: \$30,000 (his assessment) / per thousand equals 30 (thousands) \* \$1.50 (tax rate per thousand) equals \$45 for his tax for the last year.



–  $\$30,000 / \$1,000 * 1.50 = \$45$

# Current Year Assessments

- Suzy's house is reassessed for \$110,000 and she realizes her home has appreciated in value.
- Joe's assessment remains the same.

I sure am glad my representatives passed HB 44 because I know that even if Judge Less takes the 4% increase allowable, my tax bill can only be \$104 because I am the only real estate in Tiny Co!



Cindy Rich, CPA; Boone Co PVA

# Current Year Tax Bills

- Suzy gets her new tax bill which is \$114.40. This is a 14% increase over last year.
- Assuming Joe is still paying \$45, Judge Less will be collecting \$159.40 this year, \$14 more than he collected last year.



**My taxes went up  
14%!!!**



**I did not raise taxes! I took  
the compensating rate!!!**

**I merely followed the GOLD  
guidelines -- You should talk to  
them.**



# What is the Compensating Rate



- Judge Less decides not to raise taxes and to take the “Compensating Rate” this year.
  - Compensating rate - meaning the rate that will bring in the same amount of REVENUE as last year, taking into account higher assessments.
- So, he has agreed to take in another \$145, right? But, wait, didn't he take in \$159?

# How would YOU calculate the rate?

If the compensating rate should bring in the same amount of revenue as last year, what should the compensating rate be?

How would I figure that out?



## Pop Quiz!

\*If Suzy's assessment doubled to \$200,000 what would her rate be?

\*If Suzy's assessment dropped to \$50,000 what would her rate be?

# Calculation of True Compensating Rate

$$\frac{\text{Prior Yr Revenue}}{\text{Current Yr Assessment}} * 1000$$



$$\frac{\$100}{\$110,000} * 1,000 = \$0.91 / \$1,000$$

- $\$0.91 * \$110,000 / \$1,000 = \$100$

**SAME AS LAST YEAR**

OFFICE OF THE GOVERNOR

DEPARTMENT FOR LOCAL GOVERNMENT

COMMONWEALTH OF KENTUCKY



GOLD, now known as The DPT for Local Government, under the Office of the Governor, provides financial help in the way of:

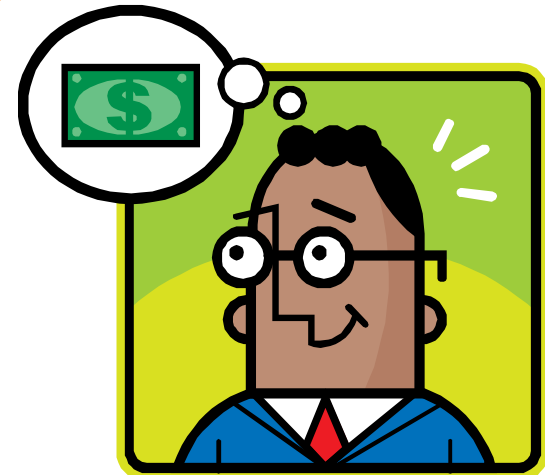
- Grant and loan assistance
- Advising local governments in matters of
  - Budget
  - Personnel
  - Other issues relevant to those entities.

# Mr. GOLD Says ...

It can't  
be ...



That is, **INDEED**, the  
compensating rate for Tiny  
County!



Last year's Revenue from Real Estate was \$100. Yes, if you take the new assessment, \$110,000, and divide into last year's revenue, you do get 91 cents / \$1,000 which is the "true compensating rate" but, there is a loophole which we use to gouge the taxpayer!!!

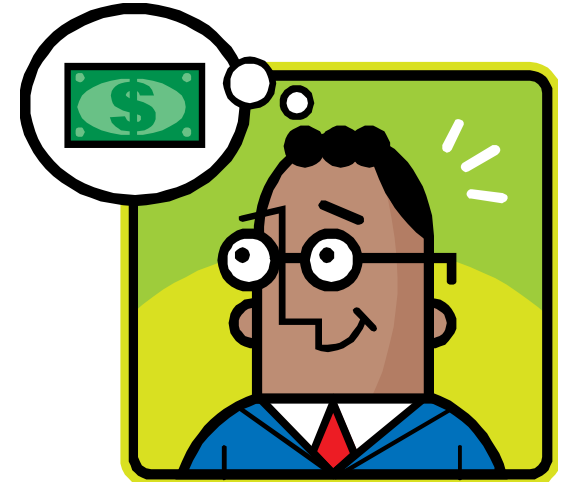


**\*CALCULATION\***

$$\frac{\text{Prior Yr Revenue}}{\text{Current Yr Assessment}} * 1000$$
$$\frac{\$100}{\$110,000} * 1,000 = \$.91 / \$1,000$$



This is how **WE** calculate  
the rate, Suzy ... Step 1



Tax Rate =

Prior Year TOTAL Revenue divided by Current Year  
TOTAL Assessment \* 1,000

*Calculating Prior Year Total Revenue*

Last Year's Real Estate Revenue = \$100 (Suzy)

Last Year's Personal Prop. Revenue = \$45 (Joe)

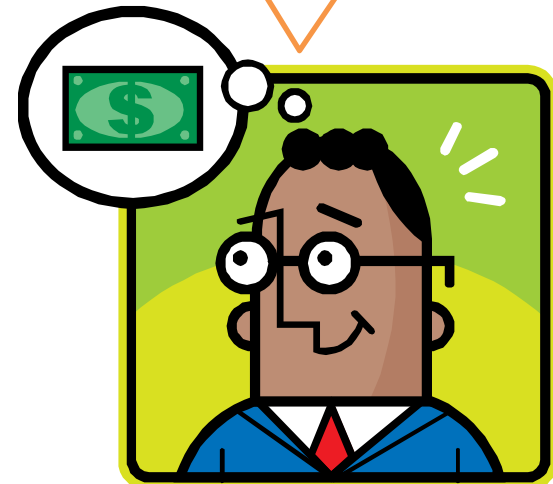
TOTAL Revenue last year = \$100 + \$45 = \$145

# Wait!!!

Why are you using \$145 this time? Why wouldn't you just use my \$100? Aren't you trying to calculate MY property tax rate? The Real Estate rate?



Because it works out better for us ...  
hehehe

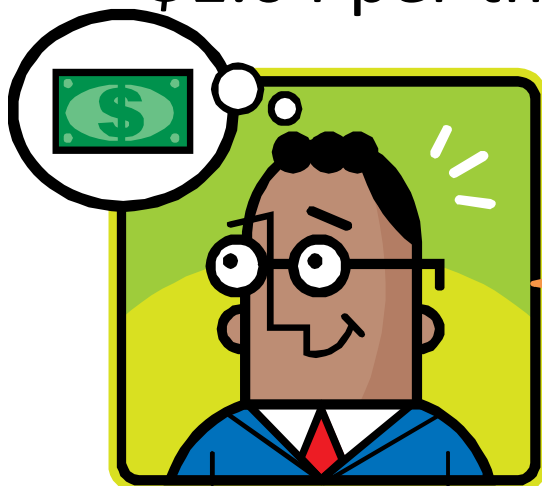


# This is how **WE** calculate the rate, Suzy ... Step 2

Tax Rate =

Prior Year TOTAL Revenue divided by  
Current Year TOTAL Assessment \* 1,000

\$145 (Prior Year Total) Divided by \$140,000  
(Current Assessment) times thousand =  
\$1.04 per thousand



See, the compensating tax  
rate should be \$1.04  
which will now be applied  
to your new assessment!

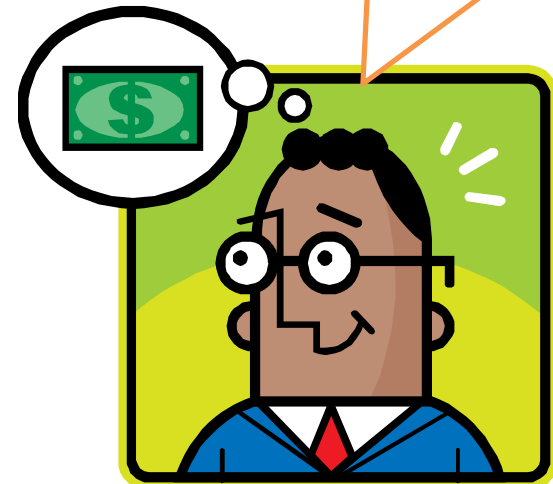
# Wait another minute!!!

Where did the \$140,000 come from? Shouldn't the assessment just be real property? Isn't that what you are trying to calculate??



The \$140,000 is the new assessments – yours & Joe's together.

Again, Suzy, this works out better for us ... hehehe



How did the Tax Rate go from  
\$.91 to \$1.04?

???

How did the Tax Rate go from  
\$.91 to \$1.04?

**Because they averaged in Joe's  
property to determine the real  
property rate!**

**WHY???**

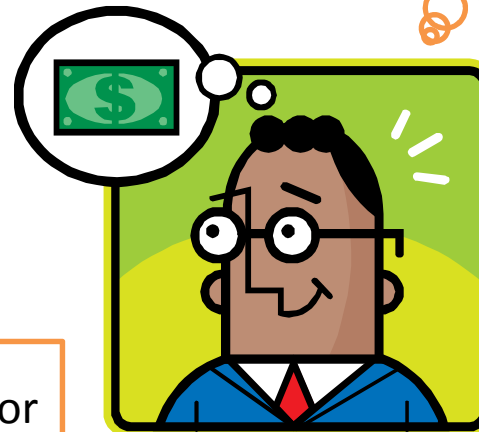
**We'll explain the Minimum  
Revenue Limits later ...**

# Suzy's New Tax Bill



$$\begin{aligned} \text{Assessment} / \$1,000 * \text{Tax Rate} &= \\ \$110,000 / \$1,000 * \$1.04 &= \$114.40 \end{aligned}$$

Hehehe...



The compensating rate for real estate was 91 cents per \$1,000!!! Not \$1.04 like it says on my tax bill!!!



## Let's Recap ...

- Suzy's assessment went up 10%, so her tax rate should have gone down 10%
- However, her tax rate did not go down, it actually went up 4% on top of her new assessment (\$110,000) = \$114 (New Tax Bill)
- This was an automatic built-in 14% increase that was not subject to a public hearing because it was "pawnd" off as the "Compensating Rate"
- What would have happened if Judge Less had taken his 4% allowable increase?
  - Suzy would have seen an 18% increase (\$118 Tax Bill)

# Suzy Explodes!

You must add Joe's Personal Property with your real estate to figure your compensating rate.



When you added Joe the Plumbers Personal Property Tax Revenue to my Real Estate Revenue, you also averaged his rate of \$1.50 / thousand with my Compensating Rate of \$.91 / thousand which causes my "Compensating Rate" to go from \$.91 to \$1.04. That's a 14% increase over the true compensating rate ...  
***That's not fair!!!!!!***



# Suzy Continues ...

AND mathematically the formula YOU use is blatantly incorrect! The problem being that your formula assumes the personal property is taxed at the same rate as real property, when, in fact, they are two separate rates!



Are YOU Smarter than a 5<sup>th</sup> Grader??

5<sup>th</sup> Grade Math Says ... You can't average apples and oranges ... or else you get AOranges! I guess those politicians in Frankfort don't know that there is no such thing as an AOrange!



# Suzy Doesn't Give Up!

- To fairly figure the compensating rate for real property, you divide \$100 by \$110,000\* which is  $\$.91 / \$1,000$
- Then, you must figure the compensating rate for personal property ***SEPARATELY***. Divide \$45 by \$30,000\* which is \$1.50 because Joe's assessment did not increase.

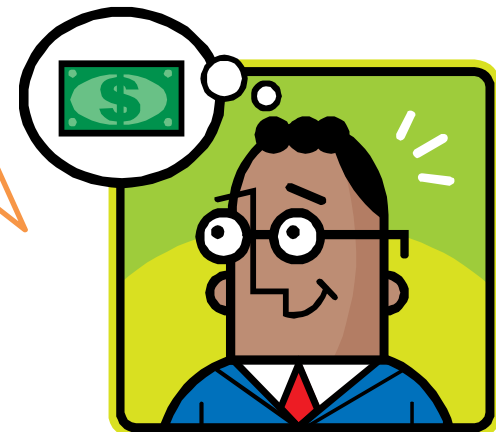


\*Last Year's Revenue Divided by This Year's Assessment

# Mr. GOLD Says ...

I know that you know that but no one else does so nobody cares!

This is how **WE** calculate the rate ... and it's perfectly legal according to how **WE** interpret KRS 132.010(6) because of that little word **ALL**.



# The Minimum Revenue Limit



- KRS 132.010(6) reads “in no event shall the compensating tax rate be a rate, which when applied to the total current year assessment of **ALL** classes of taxable property, **PRODUCES** an amount of revenue **LESS** than was produced in the preceding year from all classes of taxable property.”
- **ALL**, **PRODUCES**, and **LESS** are **NOT** highlighted in the statute, of course. But, they are the key words to the loophole.