Property Tax Assessment in Iowa

2024 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 ration 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.

Rollback is applied. Residential property is "allowed" to grow by 3% statewide before "rolling back" to offset major swings in the market. In addition, the residential rollback includes a formula that ties the growth of its classification to that of agricultural property. This is commonly referred to as "coupling" and limits the valuation of either property classification to the smaller of the two. The residential rollback generally has more volatility as it factors in market trends.

Agricultural property is assessed at 100 percent of its productivity and net earning capacity, but has a separate property tax levy rate. Railroad and utility property are assessed annually by the state.

Commercial, industrial and railroad properties are taxed at the same rate as residential property for the first $150,000 of value. The remaining value is taxed at a fixed rollback rate of 90%.

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.

(515) 244-7282 LegislativeStaff@iowaleague.org www.iowaleague.org

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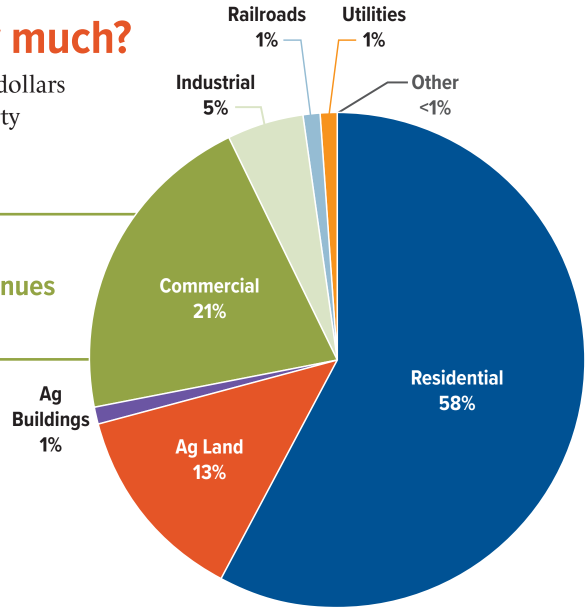
Who pays/how much?

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

Chart A

Property Tax Revenues by Class FY24:



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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.

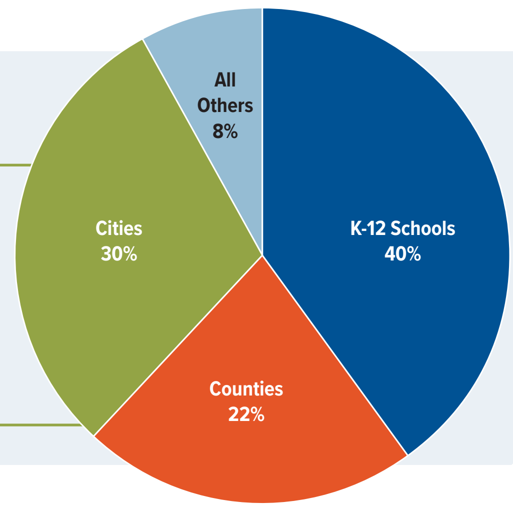
Who receives property tax revenues?

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.

Chart B

Share of Property Tax Revenues by Tax Authority FY2024:



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)
- 46.34% rollback applied (FY24) (the math: $200,000 * 0.4634) = $92,680 *(state sets changes each year)*
- $92,680 becomes the taxable value

Left:

- Assume **consolidated tax rate** of $32.30/$1,000 taxable value
- (the math: ($92,680/1,000)*$32.30 = $2,994)
- Homestead credit is eligible for this property (assumption) – subtracts $157 (the math: ($4,850)/1,000) * $32.30)
- Assume no add'l exemption/credits for sample
- Total tax bill (year): the math: $2,994 – $157 = $2,837

  Paid twice per year @ $1,419 per installment ($2,837/2)

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

- Assume **city tax rate** of $12.37/$1,000 taxable value (simple average)
- (the math: ($92,680/1,000) * $12.37 = $1,146)
- Homestead credit is eligible for this property (assumption) – subtracts $60 (the math: ($4,850)/1,000) * $12.37)
- Assume no add'l exemption/credits for sample
- Total city tax bill (year): the math: $1,146 – $60 = $1,086

  Paid twice per year @ $543 per installment ($1,086/2)