

Technical Discussion - Revenue Neutral Tax Rate

It is important to note that even with a revenue-neutral tax rate owners of real property will usually pay more after a revaluation (a revenue neutral rate is defined as *“the rate that is estimated to produce revenue for the next fiscal year equal to the revenue that would have been produced for the next fiscal year by the current tax rate if no reappraisal had occurred”*). How can that be? Personal property makes up about 22% of the total tax base of Forsyth County. Personal property is valued at market value each year, while real estate is valued at market value every four years. A lower tax rate will result in less tax generated by personal property. So the net effect is that the tax base is re-equalized with more of the overall tax burden shifting back to real property.

Confused? Perhaps the following examples may help. The first chart shows the 2004 projected tax base and tax levy. Real property makes up about 78% of the total tax base, while personal property, registered vehicles and public service company property makes up the remaining 22%. Another way to put it – 22% of the tax base is valued every year at market value while 78% of the base is revalued every four years.

CHART 1 2004 Tax Base and Projected Levy	
Real Property	19,780,000,000
Personal Property	2,590,000,000
Registered Motor Vehicles	2,450,000,000
Public Service	535,000,000
TOTAL	25,355,000,000
Tax Rate	.00708
Projected Tax Levy	\$179,513,400

Now let’s look at the second chart. Let’s assume we just had a revaluation and the real property portion of the tax base increased to \$22.160 billion. In calculating a revenue-neutral tax rate the law allows a *“growth factor equal to the average annual percentage increase in the tax base due to improvements since the last general reappraisal”*. The growth factor for Forsyth County is 1.75%. This means the total amount of taxes levied on all property would be \$182,654,900 under the revenue-neutral scenario in this example.

CHART 2 Revenue Neutral Rate	
2004 Tax Levy	179,513,400
Projected 2005 Levy (1.75% growth)	182,654,900
Real Property (say 12%)	22,160,000,000
Personal Property	2,600,000,000
Registered Motor Vehicles	2,500,000,000
Public Service	550,000,000
TOTAL	\$27,810,000,000

The third chart shows how the new tax rate of 65.7 cents per \$100 in value is determined. So in this example:

- The real property portion of the tax base increased 12% to \$22.160 billion.
- Personal property values stayed about the same (which is typical for Forsyth County).
- An allowable 1.75% normal growth factor means the overall tax levy would be \$182,654,900.
- The revenue neutral tax rate would be \$65.7 cents, down from the previous rate of \$70.8 cents.

CHART 3 Revenue Neutral Rate	
2005 Projected Levy	\$182,654,900
TOTAL Tax Base	27,810,000,000
New Tax Rate	.006568
	Say .00657 rounded

Now, wait a minute. Real estate went up 12% but a revenue neutral rate only drops about 7%? Let's dig a little more.

The fourth chart breaks down the 2004 tax levy by showing the amount of taxes levied on each type of property. About 78% of the tax levy comes from taxes on real property.

CHART 4		Effect of a Neutral Rate
2004 Levy		
Real	19,780,000,000	$\times .00708 = \$140,042,400$
Personal	2,590,000,000	$\times .00708 = \$18,337,200$
RMV	2,450,000,000	$\times .00708 = \$17,346,000$
Public Service	535,000,000	$\times .00708 = \$3,787,800$
TOTAL	25,355,000,000	$\times .00708 = \\$179,513,400$

Chart 5 breaks down the taxes levied using the revenue-neutral tax rate developed after a revaluation. Take note of the reduced taxes levied on personal property! The lower revenue neutral tax rate in this example produces \$2,350,500 LESS than in the previous year.

CHART 5		Effect of a Neutral Rate
2005 Levy		
Real	22,160,000,000	$\times .00657 = \$145,591,200$
Personal	2,600,000,000	$\times .00657 = \$17,082,000$
RMV	2,500,000,000	$\times .00657 = \$16,425,000$
Public Service	550,000,000	$\times .00657 = \$3,613,500$
TOTAL	27,810,000,000	$\times .00657 = \\$182,711,700$

Chart 6 emphasizes this point with a side by side comparison. Another reason for this effect is that North Carolina law requires local governments to use a single tax rate for all property. Fluctuations in this single tax rate have a direct impact on taxes levied on all types of property. Because real property is revalued every four years and personal property is revalued annually, the revaluation re-equalizes real and personal property values. The adjusted tax rate also re-equalizes the tax burden.

CHART 6			Effect of A Neutral Rate - Comparison
	2004 Levy	2005 Levy	
Real	\$140,042,400	\$145,591,200	
Personal	\$18,337,200	\$17,082,000	
RMV	\$17,346,000	\$16,425,000	
Public Service	\$3,787,800	\$3,613,500	
TOTAL	\$179,513,400	\$182,711,700	