THE TAX ATTACK
Chapter XXV

Among your holiday cards I suspect you found Cuyahoga County's real estate tax greetings. Ho Ho Ho. First half tax payments for 2011 are due by January 25, 2012. Total taxes on Village parcels generally are about equal to those billed last year. Even so, a few questions have been asked concerning the current bills.

First, if the market value didn't change from year to year (the next tri-annual reappraisal is later this year) and the voters approved no new taxes, why is there any change in the amount owed? While the answer is simple, i.e., the Tax Reduction Factor changed slightly, understanding how that factor is calculated is not. The Tax Reduction Factor is mandated by Ohio HB 920 and is the Legislature's method in the absence of new taxes of smoothing both your tax expense and the tax income of the various taxing entities. Compare the 2010 and 2011 Tax Reduction Factors shown on your bills and you will find your answer.

The other frequently asked question deals with why taxes don't reflect what has happened to property values in recent years. The answer to that lies in understanding that a portion of your tax liability becomes fixed each time a <u>new</u> levy is approved. Currently, in Gates Mills, we have three five-year operating levies. They were first voted in 1993, 1996 and 2005 respectively and each has subsequently been renewed at least once. When a levy other than a charter levy is first approved the amount of revenue it will generate is fixed permanently for the term of that levy and any <u>renewal</u> of it. Should a levy expire rather than being renewed and a new levy is approved, the total revenue that the new levy will generate is then fixed. Thus, a change in appraised value forces a recalculation of the rate of tax but does not produce more or less revenue unless the levy is a replacement. Charter levies like our 1 mill conservancy levy are an exception; the amount of revenue is recalculated annually based on the then current real estate appraisal. Simply stated, non-charter renewal levies are a zero sum game. If your appraisal changes, your rate (not the dollar amount) is modified because your tax liability is fixed.

Which prompts a word of caution. We have read much recently in print media concerning the County's processing of real estate tax appraisal complaints. Likely many taxpayers are questioning whether the current tax valuation of their property is reflective of what they might expect were they refinancing or selling. Filing a real estate tax complaint is more complex than alleging that your appraisal is too high. If you are a recent buyer and the County's appraisal differs from the price you paid, evidence such as a HUD-1 form covering your purchase likely will be enough to make your case. But if you have owned your property for several years you will need to offer evidence of comparable sales of similar property or a recent appraisal by a professional appraiser to support a claim for a reduction. Do not forget that the governmental recipients of your tax dollars have the right to challenge your appeal and the Board of Revision has the authority to increase as well as lower appraisals. Tax complaints must be filed by end of business March 31 of each year. Instructions and forms to do this can be found at bor.cuyahogacounty.us.

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While there was a great deal of political conversation regarding federal and state taxes in 2011, very little changed. For certain, 2012 will have more tax conversations, and there is the likelihood that some new legislation will emerge. It will pay to keep a watch on both Washington and Columbus as the legislators return to their work. Significant tax changes will be the subject of future articles. You might want to read the articles beginning on page B7 of the January 7, 2012 *Wall Street Journal* concerning taxes.

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The Village operating and capital budgets for 2012 were approved unanimously at Council on January 10. It is the belief that the approved budgets are conservative both as to revenue and expense. If realized, the operating budget calls for a 3.6% surplus. There is a strong spirit of cost containment among both Village employees and volunteers. You should expect actual income and expenses to be monitored closely as the year evolves. As with any projection, there are many variables.

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And finally, a large compliment goes to Gates Mills voters. As reported by the County Board of Elections, more than 60% of registered voters participated in November's election. This percentage is among the highest in Cuyahoga County and well above the County average. While it's hard to see why our number could not be even greater given access to absentee voting for all, our residents continue to engage and care. That bodes well for our community. Thank you.

Bob Reitman
Treasurer and Tax Administrator
01/13/12

01/20/12 SUPPLEMENT:

In what I consider a somewhat unlikely place, *The New York Times*, today I found a fairly balanced news article concerning federal income taxes. At the risk of burdening you, a copy is attached. Please draw your own conclusions, but regardless of political predisposition, addressing tax issues fairly will only occur when facts (not electability) motivate decision making.

The New York Times

Why Taxes Aren't as High as They Seem

By DAVID LEONHARDT

Published: January 19, 2012

WASHINGTON — When people heard that Mitt Romney's federal income tax rate was about 15 percent, the immediate reaction of many was to assume that their own rate was higher. The top marginal rate is 35 percent, after all, and the marginal rate on a couple with $70,000 in taxable income is 25 percent.

The truth is that most households probably pay a lower rate than Mr. Romney. It is impossible to know for sure, given that he has yet to release his tax return. What is clear, though, is that a large majority of American households — about two out of three — pays less than 15 percent of income to the federal government, through either income taxes or payroll taxes.

This disconnect between what we pay and what we think we pay is nothing less than one of the country's biggest economic problems.

Many Americans see themselves as struggling under the weight of a heavy tax burden (partly for the understandable reason that wage growth has been so weak). Yet taxes in the United States are quite low today, compared with past years or those in other countries. Most important, American taxes are not sufficient to pay for the programs that many people want, like Medicare, Social Security, road construction and education subsidies.

What does this combination create? An enormous long-term budget deficit.

Together, all federal taxes equaled 14.4 percent of the nation's economic output last year, the lowest level since 1950. Add state and local taxes, and the share nearly doubles, to about 27 percent, according to the Tax Policy Center in Washington — still lower than at almost any other point in the last 40 years.

As the economy recovers and incomes rise, tax payments will increase somewhat. But they will not keep pace with projected spending, in the form of Medicare, Medicaid and Social Security. And total taxes at current rates would still make up a smaller share of the economy than in virtually any other rich country — not just European nations but also Australia, Canada, Israel and New Zealand.

Obviously, tax increases are not the only way to solve the deficit. Spending cuts can, too. But so far, at least, many voters seem to prefer small, symbolic cuts, like those to foreign aid. Substantial cuts — be they the changes to Medicare that President Obama included in his health care bill or the Medicare overhaul that Republicans prefer — tend to be politically unpopular.

Since the late 1970s, just before the modern tax-cutting push began, total federal tax rates have fallen for every income group. The payroll tax has risen, but declines in the income tax have more than made up for those increases. Nearly half the population now pays no federal income tax.

All told, most households pay less than 15 percent of their income to the federal government because of tax breaks, like the exclusion for health insurance, and because marginal rates apply to only a small part of a taxpayer's income. On the first $70,000 of a couple's taxable income, the total federal income tax rate is only 13.8 percent.

That said, taxes have fallen the most for the very affluent. Mr. Romney and his father — George W. Romney, the former automobile executive, Michigan governor and presidential candidate — do a nice job of illustrating the change.

The elder Mr. Romney, who died in 1995, paid an average federal tax rate of 37 percent in the 12 years for which he released his tax returns, according to an analysis by Joseph J. Thorndike, a columnist for Tax Notes magazine. Mitt Romney's tax rate has been far lower, thanks mostly to the decline in taxes on stocks and other investments. The top marginal tax rate on ordinary income has also fallen sharply.

And George Romney paid a lower tax rate than most affluent Americans in the 1950s and '60s, mainly because of deductions for his large donations to the Mormon Church. Then, a typical household near the very top of the income distribution would have paid almost 50 percent of its income in direct federal taxes, research by the economists Emmanuel Saez and Thomas Piketty has shown.

In recent years, that number has been below 30 percent.

Besides the drop in tax rates, affluent households have benefited disproportionately from tax breaks and deductions. The mortgage interest deduction, widely considered a middle-class benefit, actually saves a typical middle-income household only about $200 a year, because so many families claim the standard deduction, rather than itemized ones. The average family in the top 1 percent saves more than $5,000 from the mortgage deduction.

Such breaks are probably one reason that so many people feel as if their own taxes are such a burden: they have a sense, and not incorrectly, that others are benefiting from tax breaks unavailable to them. "If we had a simpler tax code," said Roberton Williams of the Tax Policy Center, "people might be more accepting of what they pay."

The group for which tax rates have fallen the least is the upper middle class: those households earning between about $75,000 and $300,000 a year. Their tax rates have declined over the past few decades, but only by a couple of percentage points.

Of course, many of the people who talk publicly about taxes — economists, policy experts, journalists — happen to fall into this group, which may be yet another reason that the public debate does not always match reality.