

# How Property is Valued for Property Tax Purposes

*New Jersey's real property tax is "ad valorem" meaning that each person pays tax based on the value of the property they own.*

## Standards for Valuing Property

*New Jersey courts have determined "full and fair value," "market value," and "true value" to be synonymous.*



**P**roperty is to be assessed for taxation purposes by general laws and

uniform rules. All real property must be assessed according to the same standard of value except for agricultural/horticultural land.

True value is the price at which, in the assessor's judgment, real property would sell for at a fair and bona fide sale.



**T** rue market value is the likely price that a property will bring in a competitive market

under essential conditions for a fair sale. It assumes that there is a willing buyer and willing seller and neither is negatively Influenced; e.g. selling property to finalize a divorce. Market price is the actual amount that is paid for a property. The actual price paid is not always what the property's true value is on the real estate market.



## **Factors Affecting Property Value:**

### Economic

- Purchasing power
- Wage levels
- Employment rates
- Inflation
- Recession
- Housing
- Shortage/Surplus
- Interest/Mortgage Rates
- Construction costs for materials and labor

### Environmental

- Geography and location
- Weather conditions
- Soil types
- Waterways
- Surrounding neighbors
- Proximity to schools, churches, stores, transportation

### Physical Characteristics

- Surrounding properties
- Comparable properties
- Subject property in terms of :
  - ⇒ Construction quality
  - ⇒ Age
  - ⇒ Maintenance level
  - ⇒ Depreciation
  - ⇒ Architectural style
  - ⇒ Lot size or acreage

### Government

- Public service e.g. police/fire protection
- Zoning ordinances
- Building codes
- Taxes assessed

## **Methods of Valuing Property:**

**T** here are 3 methods for determining property value for tax purposes. Selection of a method depends on the nature of the property.



- Cost of replacement
- Market data or sales comparison
- Income approach

### Cost of Replacement

Commonly used for new construction; it estimates the cost of building that structure. The new building is compared with another building that has the same or equal functionality. The land value is added to the cost of the building improvements minus depreciation if not new construction to get the total value of the property.

## Revaluation, Reassessment and Compliance Plans:

### Sales Comparison

This method determines the market value by comparing similar properties that have been sold in the municipality. The following factors may be used to calculate the value.

- Number of rooms
- Size of the rooms
- Quality of material
- Quality of workmanship
- Physical condition
- Location
- Time of the sale

### Income Approach

This method determines the market value based on the property's income-producing capabilities.

analyzes the future income stream...



to determine the purchase price...



**The Price?**  
GOOD QUESTION!

estimating what could be the future benefit...



★ All 3 methods should be used when possible in the valuation of every property. One method may be more relevant than the others and given more weight in the valuation process.

### Revaluation/Reassessment

These programs may be needed when there is evidence that properties are not assessed uniformly throughout the taxing district. The intention of the process is to distribute the tax burden equitably amongst taxpayers by assessing each property according to its true value.

### Added Assessment

New construction, structural additions and improvements completed during the tax year are valued and taxed so that the property does not avoid its fair share of the tax burden for the rest of the year.

### Omitted Assessment

An omitted assessment is an assessment, that by error, was not placed on the property at the right time.

### Appeals

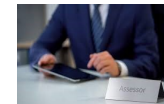
Taxpayers who disagree with their property's assessment have the right to file an appeal with their county tax board. The taxpayer can appeal directly with the New Jersey State Tax Court if the property is assessed for more than \$1,000,000.

### Appeal Form A-1

[www.state.nj.us/treasury/taxation/pdf/other\\_forms/lpt/petappl.pdf](http://www.state.nj.us/treasury/taxation/pdf/other_forms/lpt/petappl.pdf)

★ **Contact Your Local Municipal Tax Assessor**

[www.nj.gov/treasury/taxation/lpt/aaddr.shtml](http://www.nj.gov/treasury/taxation/lpt/aaddr.shtml)



### Contact Us

**Email:** [Taxation.propadmin@treas.nj.gov](mailto:Taxation.propadmin@treas.nj.gov)

**Telephone:** 609-292-7974 or 609-292-7975

**Fax:** 609-292-9439