STANDARDS FOR VALUING PROPERTY

New Jersey's real property tax is "ad valorem" or a "tax according to the value" meaning that each person pays tax based on the value of the property he or she owns.

The State Constitution at Article VIII, Section 1, Paragraph 1 requires, property to be assessed for taxation by general laws and uniform rules and that all real property, except for agricultural/horticultural land*, must be assessed according to the same standard of value. New Jersey statute N.J.S.A. 54:4-2.25 defines the standard of value as the true value of property. N.J.S.A. 54:4-23 describes true value as the price at which, in the assessor's judgment, each parcel of real property "would sell for at a fair and bona fide sale by private contract on October 1 next preceding the date on which the assessor shall complete his assessments...." New Jersey courts have determined "full and fair value," "market value," and "true value" to be synonymous.

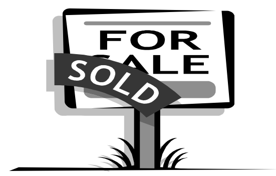
Taxable assessed value is that percentage of true value established by each county board of taxation. All 21 counties in New Jersey have chosen 100%.

*****Qualified Farmland is assessed on its productivity and agricultural use rather than market value for any other purpose.

TRUE MARKET VALUE

"**Market value**" may be defined as, "The **highest** price in terms of money which a property will bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- Buyer and seller are typically motivated.
- Both parties are well informed or well advised, each acting in what he/she considers his/her own best interest.
- A reasonable time is allowed for exposure in the open market.
- Payment is made in cash or its equivalent.
- Financing, if any, is on terms generally available in the community at the specified date and typical for the property type in its locale.
- The price represents a normal consideration for the property sold unaffected by special financing amounts and/or terms, services, fees, costs or credits incurred in the transaction."



"Market price" means "the amount actually paid for a property in a particular transaction. The "actual price" one pays for a property on the market is not necessarily representative of that property's "true value" in the real estate market. An individual sale may deviate from the "market norm" but numbers of comparable sales show patterns or trends in value. These value trends help to identify market value. Although market value can be subject to sudden fluctuations, in general "true value" for property tax assessment purposes must be fairly constant and measured by conditions which, over time, are regarded as stable." Market or sale price, while a factor in determining the market value of a property, is only one consideration.

TRENDS AND FACTORS

In assessing real property for local tax purposes, all available evidences of value are taken into account. Trends and factors affecting property value which an assessor or appraiser consider are:

- **The economy** – purchasing power, wage levels, employment rates, inflation, recession, housing shortages/surpluses, construction costs for materials and labors, interest/mortgage rates;
- **Government** – public services as police/fire protection, zoning ordinances, building codes, taxes assessed;
- **Environment, geography and location** – weather conditions, soil types, waterways, the surrounding neighborhood, proximity to schools, churches, stores, transportation;
- **Physical characteristics –** of surrounding properties, comparable properties and the subject property in terms of construction quality, age, maintenance level, depreciation, architectural style, lot size or acreage.

TAXABLE ASSESSED VALUE

An assessment is an opinion of value by a licensed professional. All municipal assessors must pass a 6-hour certification exam in property appraisal and property tax administration.

N.J.S.A. 54:4-35 requires the assessor to determine his taxable valuations of real property **as of October 1 in each (pretax) year.**

The New Jersey Supreme Court has ruled that, "Each annual assessment of property for tax purposes is separate and distinct from the assessment for any other year."

COMMON LEVEL RANGE

Despite the "true value" requirement of the law, the courts have ruled that no property may be assessed at a ratio to true value which is above the common level or average ratio of all assessments in a taxing district. A common level range is permitted and is calculated at 15% above to 15% below the common level or average ratio. During an appeal, once the hearing body determines the true value, the taxable or assessed value of the property is divided by its true value to develop the subject property ratio. If a property's ratio of assessed value to true value falls outside the common level range, its assessment is adjusted by applying the average ratio to its true value.

METHODS OF VALUING PROPERTY

Various methods are available for appraising or valuing property. Selection of the proper method depends on the nature of the property and purpose for which the appraisal is made. In appraising real property for taxation, the appraisal must be made in accordance with the basis of real property value recognized by State law, as interpreted by the courts.

Numerous judicial decisions recognize the validity of 3 methods for estimating property value for tax purposes. The cost of replacement, the market data or sales comparison, and the income approaches to value are used to estimate property value and are given appropriate weight.

- The **Replacement Cost Approach** (commonly used for new construction) estimates the cost of creating a building with the same or equivalent utility as a similarly developed property, as nearly as current prices and standards of material and design allow. An amount is deducted for wear and tear and age (depreciation.) This approach is based on cost per square foot as related to the quality of building materials and workmanship. The land value is added to the depreciated cost of improvements to get the total property value.

- The **Sales Comparison Approach** attempts to find market value through a comparison of the subject property with similar properties which have been sold for a known sum of money. The number and size of rooms, quality of materials and workmanship, the property's physical condition and location, and time of the sale are considered with this approach.
- The **Income Approach** analyzes the future income stream produced by a property to estimate the sum which might be invested to purchase the property in order to receive future benefits.

Whenever possible, all three approaches should be used in the valuation of every property. However, one approach may be more relevant than another and have more weight in the valuation process.

REVALUATION, REASSESSMENT AND COMPLIANCE PLANS

The need for revaluation/reassessment may be shown by any evidence which indicates properties in a taxing district are not assessed at the same rate of true value.

A revaluation/reassessment program tries to distribute the tax burden within a taxing district by appraising each property according to its true value and assessing it for taxation based on that true value.

During a revaluation inspectors will take exterior measurements and photographs of all houses and structures. Inspectors will also determine the amount of living space, condition of kitchens and bathrooms, basements, foundations, etc.

If assessment variations are substantial and without pattern or trends in value, a revaluation or reassessment of the entire taxing district might be the best remedy.

If assessments in one part of the district are generally too high or low, the assessor may be able to adjust values to bring them in line with assessments on other property provided the adjustments are applied on an areawide basis via a compliance plan. This is assessment maintenance.

An assessor is not allowed to reassess property based only on its recent sale. That is "spot assessing." The Supreme Court decision, *Township of West Milford v. Gerald and Juanita Van Decker,* affirmed: "The practice of reassessing properties solely because those properties have been sold in the previous year is unconstitutional because it shifts the tax burden to new owners in the municipality."

While assessors are prohibited from singling out property for increased assessment, they have a statutory obligation to monitor all indicators of property value and to correct inequities in tax years other than years of districtwide revaluations/reassessments. Assessors must obtain prior approval for a revaluation, reassessment or compliance plan from the county tax board and/or the State Division of Taxation.

ADDED ASSESSMENTS

New construction, structural additions and improvements completed after October 1 are valued and taxed under the Added Assessment Law. This way property which becomes assessable after October 1 does not avoid its fair share of the tax burden for the rest of the year. A new structure, or an addition to or alteration of an old structure, completed after January 1 and before October 1, is valued as of the first day of the month following completion. If the value when completed is greater than the assessed value placed on the structure on October 1 of the pretax year (partial assessment based on the value present at that time), an added assessment based on the difference must be made. The added assessment is prorated on the number of full months remaining in the tax year.

Tax exempt properties which lose their exempt status are also subject to the Added Assessment Law.

Added Assessments are payable on November 1 and become delinquent if not timely paid.

OMITTED ASSESSMENTS

Additional assessments which, through error, were not made at the proper time, may be placed on the tax rolls through the Omitted Assessment Laws. An omitted assessment can be made for the current year of discovery and one prior year. The Omitted Assessment Laws provide that in any year or in the next succeeding year, the county board of taxation or the municipal tax assessor respectively may, in accordance with the provisions of this act, assess any taxable property omitted from the tax rolls for the particular year.

Omitted assessments are payable on November 1 and become delinquent if not timely paid.

APPEALS

Taxpayers who disagree with their property's assessment have the right to appeal to their county tax board (or directly with the State Tax Court if the property is assessed for more than $750,000) on or before April 1 or 45 days from the date the Assessment Notifications are mailed by the taxing district, whichever is later. (December 1 for added and omitted assessments.) The required appeal forms may be obtained from the County Board of Taxation.

HOW

PROPERTY

IS

VALUED

FOR

PROPERTY TAX

PURPOSES

Division of Taxation
Property Administration

February 2004