



# Ad Valorem Taxes

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## Definition of a Property Tax

Property taxes are authorized by the Oklahoma Constitution. Both the use of a property tax and the number of mills levied are listed in Article 10 of the Oklahoma Constitution as an ad valorem tax. Thus, the terms property tax and ad valorem tax are used interchangeably in Oklahoma.

Ad valorem means "according to value." This simply means the tax is levied as a certain percent of the property's value. Real and personal property are taxed ad valorem. Real property is land and buildings. Personal property includes such items as household property, business equipment, inventories and improvements on leased property.

From the information provided in the above paragraphs a definition for a property tax in Oklahoma is developed as follows:

### Definition of property tax:

A tax authorized by the Oklahoma Constitution under the term ad valorem tax; its tax rate is given in number of mills; and it is levied as a percentage of the taxable value of real and personal property.

## Review of the Property Taxation Process

Property taxation is carried out in three steps. First, the fair cash value of the property is determined. Oklahoma bases its property tax on how the property is used; therefore the fair cash value is the market value of the property in its current use. In this context, fair cash value and use value are synonymous.

Secondly, the property's assessed value is found. Oklahoma is a fractional assessment state which means the assessed value is less than 100 percent of the property's fair cash value. The assessed value is found by multiplying the property's fair market value times an assessment rate. Effective January 1, 1997, the Oklahoma Constitution limits the assessment rate on real property to a range of 11.0 percent to 13.5 percent and the assessment rate on personal property to a range of 10 percent to 15 percent. Unless changed by a vote of the people, each county's assessment rate is that rate in effect during 1996. All 1996 assessment rates on locally assessed real and personal property are within the ranges specified above. (Public service properties are different and are assessed at 22.85 percent.)

If the property owner is entitled to an exemption, then the dollar amount of the exemption is subtracted from the property's assessed value to come up with a net assessed value. The net assessed value becomes the property's taxable

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value. If a property owner is not entitled to an exemption, then the assessed value is the property's taxable value.

Lastly, the property tax bill is calculated by multiplying the property's taxable value times a property tax rate. The tax rate is levied as a percentage of the property's taxable value. The tax rate is given in number of mills. One mill equals one one-thousandth of a dollar. For example, a tax rate equal to 80 mills is the same as 8 cents per dollar of taxable value ( $80 \text{ mills} / 1,000 = \$0.08$ ). If the taxable value were \$5,000, then the tax bill would be found by multiplying \$5,000 times \$.08 per dollar of taxable value. The result is a \$400 property tax bill ( $\$5,000 \times \$0.08 = \$400.00$ ).

Sometimes it is easier to think of the tax rate as \$1 dollar of tax for every \$1,000 of taxable value. In the above example, every 1,000 units of taxable value would be multiplied by 80 mills. For example, \$5,000 would result in 5 units of taxable value ( $\$5,000 \div 1,000$ ). The five units of taxable value times the tax rate of 80 mills would produce a tax bill equal to \$400 (5 units of taxable value  $\times$  80 mills = \$400). A \$400 dollar tax bill results from either method.

## Purpose of Property Taxation

Ad valorem taxation generates revenues to support public services and projects, which are provided by the various units of local government. The amount of revenue generated from ad valorem taxation is based on the local government's taxable valuation and the number of mills levied for its use. Total net assessed valuation is the taxable valuation of all the property subject to ad valorem taxation within a taxing jurisdiction. For a political subdivision, one mill would generate one dollar in revenue for every 1,000 dollars of total net assessed valuation.

The operations and services carried out by county government are financed by a county-wide ad valorem tax. These are referred to as general county government activities. The county road and bridge programs are not considered general county government activities and are mainly supported by motor fuel taxes, which are collected by the state and distributed to the counties.

There are several ad valorem tax levies which generate revenues for a common school district's operating budget. A common school district is the local school district which is either classified as an independent school district if it offers grades kindergarten through twelfth grade, or a dependent school district if it only has grades kindergarten through eighth grade. Area vocational technical school districts and emergency