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Reno Tax Landscape Encourages Growth And Opportunity

By **Joshua Hicks and Paul Bancroft** (June 1, 2018, 3:07 PM EDT)


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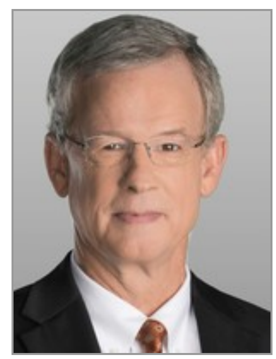
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Reno, Nevada, calls itself the "Biggest Little City in the World." For many years, Reno was viewed as a blue-collar gambling town tucked into the base of the eastern Sierra Nevada mountains. Today, many are discovering that Reno is one of the best kept secrets in the western United States. With a booming economy, low taxes, several of the highest ranked public schools in the state, a temperate four season climate, plentiful outdoor recreation opportunities, and a four hour drive from Silicon Valley, it's no surprise that companies like Microsoft, Tesla, Apple and Amazon have expanded and relocated operations to the area. Startups and incubators are popping up and attracting more millennials. Transplants are relocating to the area to take advantage of these benefits and escape the high cost of living in states like California. If you visit downtown Reno today, the growth and opportunity feel very similar to the early days in Silicon Valley; the biggest difference is the tax landscape.

Nevada has established itself as an attractive state to do business, and to reside. Nevada is a historically low-tax state. Nevada has no personal income tax. The majority of tax revenues come from the sales tax, taxes on gaming, lodging, mining and insurance premiums, a payroll tax and the property tax. Of those taxes, the property tax is primarily used to fund the operations of local government and the Legislature has had to balance the needs of local government against the desire of property owners for a low, stable and predictable tax.

Over the past five years, the median sales price of a residence in Reno has nearly doubled, but there has not been a corresponding increase in property taxes. As explained below, this is due to the unique way in which Nevada assesses property and a tax cap that was put in place in 2005 to mitigate the effect of rapidly increasing property values.

Unlike many other states that assess property based on market value, Nevada assessors determine the taxable value of property by adding the depreciated replacement cost of improvements to the market value of land. This approach usually results in a value which is less than market value.

For example, a two-year old residence with 3 bedrooms and 2½ baths in Damonte Ranch sold in early 2017 for $580,000. At the time, the taxable value of the property was $421,906. The assessor increased the taxable value for the subsequent tax year. But, even with knowledge of the sale, the assessor only increased the taxable value of the property to $429,497.

The difference between market values and taxable values is even more significant for older homes in desirable areas, because statutory depreciation can have a pronounced effect on taxable value.

For example, in early 2017 a 3 bedroom 2 bath residence in Newlands Terrace sold for $555,000. The taxable value at the time was $140,043. Again, the taxable value increased for the following year, but only to $141,154.

These examples illustrate how the methodology used to determine taxable value results in values which are significantly less than market value.

The property tax itself is calculated by multiplying the taxable value by the assessment ratio and the tax rate. However, the tax calculated in this manner is not necessarily the actual tax assessed.

For many properties the actual tax assessed is likely to be less because of the partial abatement from property tax, or the tax cap. The tax cap limit is calculated by increasing the net tax paid in the prior tax year by the applicable tax cap percentage, which can vary from 0 to 3 percent per year for a primary residence and from 0 to 8 percent for all other property. The amount by which the tax cap limit is less than the tax which would otherwise be assessed, is treated as an abatement from tax.

Obviously, the application of the tax cap reduces the tax which would otherwise be assessed in any tax year in which taxable value grows at a higher rate than the applicable tax cap percentage. But, since the tax cap percentage applies to the net tax assessed in the preceding year it preserves the benefit realized in prior tax years. Over the past five years the average annual increase in the median sales price of a residence in Reno has been over 12 percent. But, over the same period the tax cap has limited the amount taxes could increase to an average annual increase of less than 4 percent. In a rising market the benefit of the tax cap accumulates.

Many local governments believe that the valuation methodology and the tax cap have kept revenues from growing at a rate which matches the growth in expenditures associated with a growing economy. Consequently, there has been pressure to change the valuation methodology and tax cap.

In 2019, the Legislature will consider a ballot question that will effectively reset accumulated depreciation and reset the tax cap in the event of a sale or transfer of property. If the Legislature approves the ballot question, it will be on the general election ballot in November 2020 and will become law if approved by a majority of voters. This will undoubtedly help the strained budgets of local governments, but it will also mean that property taxes after a sale will be significantly higher than they are today. Fiscal year 2021-22 is the first year which could be impacted and it would affect sales occurring during the preceding 12 months. Accordingly, there is a window of opportunity; the prospect of change should not affect sales made prior to July 1, 2020. Instead, prospective buyers in the current market should continue to enjoy the stability and predictability of the valuation methodology and the tax cap.

In summary, Reno has a booming economy in a low-tax environment. There is no income tax and the property tax is low, stable and predictable. All signs are positive that the growth will continue.

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