Amendment 79

Although they've been around for a few years, Amendment 79 to the Arkansas Constitution and a companion piece of legislation — Act 2284 of 2005 — still leaving some home buyers scratching their heads.

Here's a word of advice — if you're going to purchase a home in this state, you need to be aware of Amendment 79 and Act 2284 as those can work to increase how much property taxes you pay after purchasing a house.

In a nutshell, Amendment 79 states that the taxable assessed value of a property can't increase more than 5 percent a year on primary residences and 10 percent for other properties. The amendment also freezes the taxable assessed value of primary residences for people over the age of 65 and disabled property owners.

Amendment 79 was modified and clarified by Act 2284, which removes the caps put in place by the amendment after the transfer of a property.

Here's how that all works. Let's say Sue is 65-years-old and the value of her home is appraised at $100,000. The taxable value of that home is $20,000 — 20 percent of the actual appraised value. Sue lives in an area where the property tax rate is 68 mills per dollar, so she pays $1,360 in property taxes every year (the $20,000 taxable value times 0.068 cents). As long as Sue's home is her primary residence, the taxable value will remain $20,000.

Bear in mind that the taxable value will remain constant, but Sue could pay more if the millage rate in her area increases. If the rate goes to, say, 72 mills, then sue is looking at a property tax bill of $1,440 per year — the taxable value hasn't increased, but the millage rate has.

At any rate, Sue decides to sell her home to Bill. She lists it for $110,000, which is the fair market value of the home. Keep in mind that the value of the home is not necessarily how much someone pays for it — if Bill buys it for $100,000 but the county says the home is worth $110,000 when the next appraisal cycle rolls around, he'll still look at a taxable value equal to 20 percent of $110,000 ($22,000).

And that's exactly what happens to Bill. He may pay his property taxes based on the appraised value of $100,000 that Sue enjoyed, but Act 2284 mandates that the caps put in place for the former owner will be removed at the next appraisal.

So, what's Bill's tax liability? Assuming the rate is still 68 mills, he'll pay $1,496 per year — $136 more than Sue paid and, perhaps, what Bill thought his annual property tax bill would be in the absence of a millage increase. That might not seem like a lot, but what if the caps were removed and the value of the home went up to $120,000 or $130,000 in the next appraisal cycle? Bill would be looking at a tax rate that is considerably higher than what he may have expected — every $1,000 increase in taxable value would add another $68 to the annual property tax and that can add up quickly.

There is, of course, some relief for Bill — a $425 homestead exemption which is available to ALL Arkansas homeowners with it comes to their primary residences. That credit must be claimed at the local county assessor's office, but they've proven adept over the years at publicizing its availability.

Still, never assume the property taxes paid yearly by the current homeowner on that house you're looking to purchase is what you'll pay.