

STEB SETS 2010 PHILADELPHIA COMMON LEVEL RATIO AT 18.1%

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The Pennsylvania State Tax Equalization Board (STEB) recently released the 2010 Common Level Ratios (CLR) for counties across Pennsylvania. The 2010 CLR for Philadelphia is 18.1% — not quite half what it has been for the past twenty-five years. The large shift will have an important impact in two areas of Philadelphia taxation.

Pennsylvania and Philadelphia realty transfer taxes imposed on certain taxable transfers of real property within Philadelphia will be increased. For certain transactions subject to realty transfer tax, the tax is imposed on the *computed value* of the real property, which is the amount determined by multiplying the assessed value of the property for real estate tax purposes by the Common Level Ratio Factor (CLRF) for the county in which the property is located. The CLRF is the reciprocal of the CLR. Computed value is used for transfers for no consideration or for consideration less than the actual monetary worth; transfers upon execution on a judgment or upon the foreclosure of a mortgage by a judicial officer; certain long-term leases; and transfers within a 3-year period of 90% or more of the ownership interests in a "real estate company". Since at least 1986, the CLRF for Philadelphia has hovered in the range of 3.0 through 3.5. As the result of STEB's determination that the CLR is 18.1%, the 2010 CLRF for Philadelphia will be 5.53, which will almost double the computed value of real estate within Philadelphia.

Second, real estate tax assessment appeals generally will result in lower values. The general rule of real estate taxation in Pennsylvania is that real estate taxes are imposed on the assessed value of the real estate. The assessed value is calculated by multiplying the market value of the real

estate by the *established predetermined ratio* for the county in which the real estate is located. For Philadelphia, the established predetermined ratio is 32%. However, where a market value appeal for real property is filed and the CLR published by the STEB in the year before the tax year being appealed varies by more than fifteen percent (15%) from the established predetermined ratio, the assessed value of the property is determined by multiplying the market value of the real estate by the CLR. The phrase *varies by more than 15%* means 15% of the established predetermined ratio. Accordingly, where the CLR for Philadelphia is less than 27.2% or more than 36.8%, the assessed value of real estate for which a market value appeal is filed must be determined by reference to the CLR as opposed to the established predetermined ratio of 32%. STEB has determined that the 2010 CLR for Philadelphia is 18.1%, exceeding the 15% variance. Accordingly, many property owners may benefit from filing a 2012 market value appeal of their Philadelphia property with the Philadelphia Board of Revision of Taxes. A property owner should compare the property's *actual* current fair market value versus the market value assigned to the property by the City's Office of Property Assessment (OPA). If the actual current fair market value multiplied by the CLR will result in a lower assessed value than the assessed value set by the OPA, an appeal probably should be taken.

Cozen O'Connor can assist property owners in analyzing the potential real estate tax benefits related to this matter. Please contact Cheryl Upham at 215.665.4193 or Joseph Bright at 215.665.2053 with any questions or comments.