

June 8, 2005
PROPERTY REPORT

Hitting the Roof

Homeowners Push for Limits As Property-Tax Bills Soar; States Try Various Measures

By RAY A. SMITH

Staff Reporter of THE WALL STREET JOURNAL

June 8, 2005; Page B1

When Rhode Island dentist Harvey Waxman retired in 2000, he planned to immerse himself in woodworking, gardening and sailing his boat on nearby Narragansett Bay. Then the property taxes on his two-bedroom home in North Kingstown jumped to \$17,000 from \$7,000 in four years.

Dr. Waxman dropped his hobbies and founded RIGHT, or Rhode Island Gets Honorable Taxation. Today, he travels the state giving speeches calling for changes in the way property taxes are levied. "It just became so clear to me that something was flawed with the system," he says.

His campaign may pay off. John J. Loughlin II, a Republican state representative, plans to introduce a bill next year that takes a page from Dr. Waxman's proposal, stating that property taxes for existing homeowners should be based on the amount the owner paid the prior year rather than on a home's fluctuating market value.

As home prices have soared across much of the country, property tax bills have often followed. That has prompted the rise of tax activists like Dr. Waxman, who are demanding cuts or at least a slowdown in the increases. Some states and local governments have responded, though many remain cash-strapped despite the increased property-tax revenue.

Last year, lawmakers in Illinois and Pennsylvania passed property-tax relief bills in the wake of outcries from angry homeowners. Earlier this year, Maine's legislature passed a bill that boosts the state's share of school funding, caps the spending on government and expands tax-break programs. In New Hampshire, the state Senate is expected to vote this week on a plan to eliminate the statewide property tax. Candidates for New Jersey's governorship are trading dueling plans to cut property taxes.

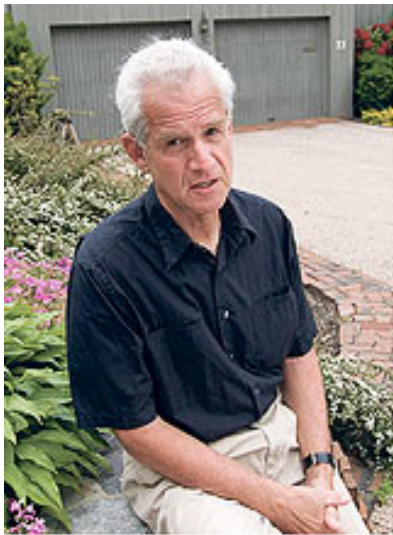
"The outcry is loud now because the increases are taking place at a quite accelerated level over a shorter amount of time," says Daniel R. Mullins, an associate professor of public affairs at American University in

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David Wells

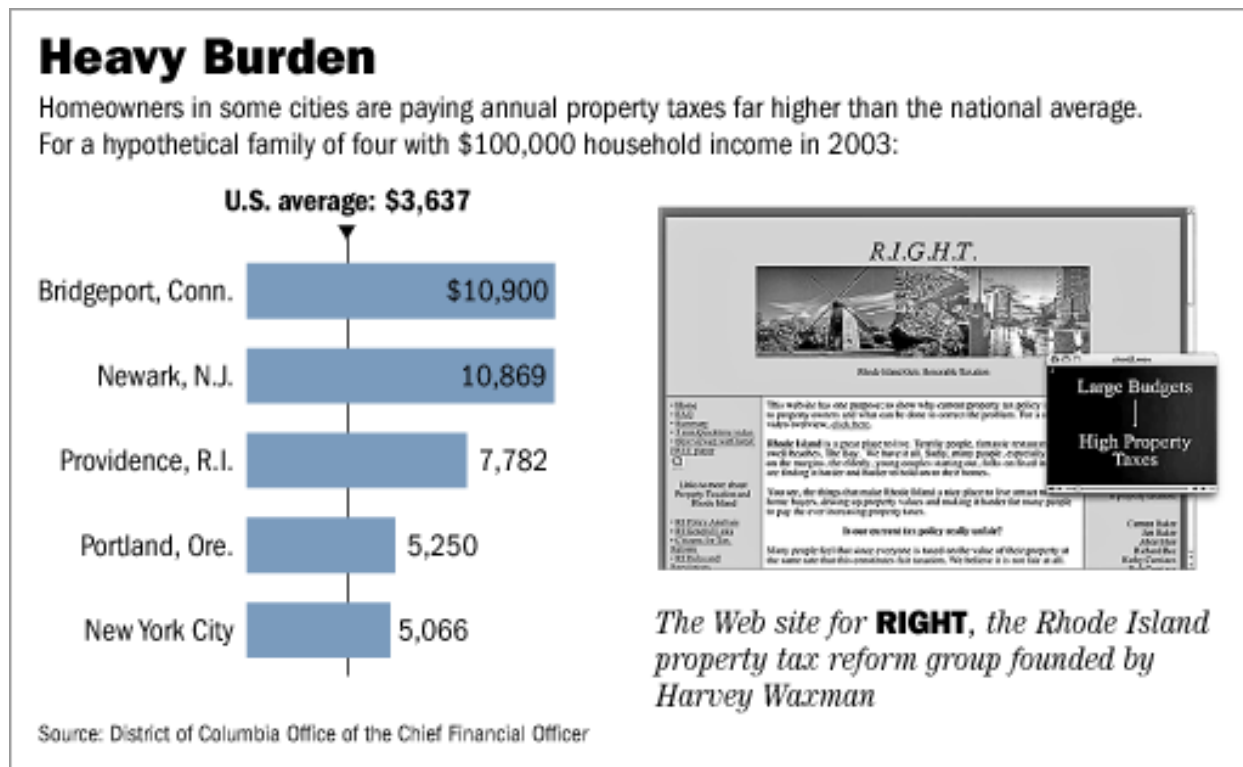
Harvey Waxman of North Kingstown, R.I., became a tax-limit activist after his annual property tax bill jumped to \$17,000 in 2004 from \$7,000 in 2000.

Washington, D.C.

Property taxes are usually set and collected by cities, towns and counties to fund schools and local services such as police and fire protection, roads and garbage collection. Tax rates and increases vary widely depending on a local government's financial health and the strength of its housing market, so it's hard to generalize about tax increases nationally. But many homeowners are frustrated that their tax bills are going up because homes in their towns are selling for higher prices, and not because they are seeing increased or better services from their municipalities.

David Whetsell, a 60-year-old heating and air-conditioning technician in Lexington, S.C., where property taxes have risen 20% a year since 2000, last year started STOPTAX.org. The group pushed heavily for legislation to eliminate property taxes for homes. Such a bill has been introduced by a Republican senator and is expected to be taken up in the state legislature's next session beginning in January.

For Peyton Gannaway, a 66-year-old retiree who lives in Crystal Bay, Nev., it was the 233% increase in the tax bill on his five-bedroom waterfront home in 2003 that got him to join a local tax revolt group and protest the increases. "It was pretty breathtaking," says Mr. Gannaway, who unsuccessfully sought a reduction in his bill. He says he understands that home prices are soaring but he is certain "the cost to run the county sure didn't go up that much." In March, Nevada's legislature voted to limit annual tax bill increases for owner-occupied homes to just 3%.



Well-known tax groups have taken up the cry as well. The theme of the National Taxpayers Union's annual conference being held in Washington, D.C., next week is "preparing citizen activists for the next major

push of the tax revolt as well as local limits on property taxes," says Peter Sepp, a spokesman for the group. Some taxpayers are also angry because the federal alternative minimum tax affects more people each year and doesn't allow property taxes to be deducted.

The citizen-led efforts resemble, at least in spirit, the revolt that produced California's landmark Proposition 13 in the 1970s. After seeing their property tax bills soar, homeowners there passed an initiative that rolled back property taxes and limited the ability of municipalities to raise them. But the current group of protesters, aware that in some cases Proposition 13 led to big cuts in schools and local services, in most cases don't want to handcuff local governments but instead want a say over future increases.

Property taxes as a share of national income often go up after recessions or government budget crunches as municipalities struggle to replace declining sales and income-tax revenue with more reliable property-tax money. Says David H. Bradley, a policy analyst with the Center on Budget and Policy Priorities in Washington, "if the historical trend holds, property taxes will stabilize or decline over the next several years - without the need for tax revolt-type limitations."

The wild card in the current situation is housing prices. Municipalities generally haven't raised tax rates -- assessments have gone up, leading to higher tax bills, even at the same rate. The question is, if home prices continue to rise, will municipalities actually cut their tax rates to compensate?

Given that state and local budgets are stretched despite the increase in tax revenue from higher assessments, widespread cuts in property-tax rates appear unlikely. Economic growth needs to be strong enough to boost sales and income-tax revenue, some of which trickles down to local governments. "Even with the improved economy and legislated tax increases, state tax revenue on average remains about 7% below its 2000 peak," says Donald Boyd, director of the fiscal studies program at the Nelson A. Rockefeller Institute of Government, the public-policy research arm of the State University of New York.

States are also getting hurt by cuts in federal aid. In fiscal 2004, the gap in federal funds to states to pay for federal mandates totaled \$26.6 billion; in fiscal 2005, it totals \$31.9 billion, according to the National Conference of State Legislatures. The states' woes led to cuts in aid to cities and towns, leading them to rely more on property taxes.

To be sure, revenue is higher in some fast-growing states, making property-tax increases harder to defend. But sales and income tax revenue is down in 36 states since 2000, and the median decline for those states is 8%, while in the 14 states where revenue is up, the median increase is 2.1%, according to the Rockefeller Institute. That revenue figure is adjusted for inflation and population growth.

Despite the uproar, there's evidence that property taxes haven't gone up as much as home prices. According to an analysis of housing and property-tax data conducted by Robert Tannenwald, an economist at the Federal Reserve Bank of Boston, median home prices rose at an annualized rate of 8.2% from the fourth quarter of 2001 to the fourth quarter of 2004, while property-tax collections trailed with a rise of 6.0%. That's partly because the value of rental homes and commercial property didn't appreciate as much as owner-occupied homes. Also, some jurisdictions lowered tax rates because assessments were high.

That doesn't mollify homeowners like 68-year-old Jerry Joseph in Potomac, Md., a Washington suburb. "With increased property taxes and increased [real-estate] development, you'd think they'd have enough money to not have to raise property taxes or give significant reductions," he says. The Montgomery County Council in Maryland last month approved a measure that slows property-tax-bill increases. "We heard from a lot of residents and we listened," says council President Tom Perez.

Meanwhile, Dr. Waxman says he's ecstatic his proposal is being taken seriously in Rhode Island. "This has been my quest, my primary interest," he says.

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America's fastest rising taxes

Across the land, property taxes are continuing their upward trend.

June 8, 2005: 10:40 AM EDT
By Les Christie, CNN/Money staff writer

NEW YORK (CNN/Money) - Roy Downing is angry. Taxes on his Lodi, N.J., home hit \$8,000 in 2004, up from \$6,000 the year before.

"That's quite a shot in one year," says Downing, chairman of the American Reform Party, which seeks to reduce government spending. "Then, it went up again, \$300, this year."

New Jersey homeowners pay the highest property taxes in the country, according to the Tax Foundation, an evaluation based on the latest available Census Bureau figures from 2002. But you don't have to live there to have suffered a big boost in property taxes.

(Click [here](#) for state-tax rankings.)

Nationwide, property tax collections rose 7 percent in 2004, to more than \$324 billion. Over the past five years, they've climbed 36.6 percent, about 6.4 percent a year.

The technical term for property tax is "millage," from mille, or one thousandth. That should strike most Americans as funny, considering that they're paying annual property taxes of between 1 percent and 2 percent, exceeding one thousandth by a factor of ten or more.

Pete Sepp, VP of communications for the National Taxpayers Union, says property taxes have been the fastest growing tax category the past few years, based, as they are, on home values, which have soared.

He also says public opinion polls find them, "The single most vexing and unfair tax we pay." (Click [here](#) for that story.)

Not only have they risen with the great surge in property values, but localities are also "assessing property much more aggressively," according to property tax expert Myron Orfield, of the University of Minnesota. He says property taxes are up nearly everywhere in America.

In most towns outside big cities, Orfield points out, 70 percent or more of property taxes go to pay education costs.

Still, real estate price increases have left many wealthy municipalities, "hip-deep in property tax revenue," according to Bill Ahern of the Tax Foundation, which attempts to educate taxpayers about taxes of all kinds.

Fairfax County, Virginia (population: more than 1 million) had a 23 percent increase in house prices in 2004 so tax bills could have ballooned by that amount.

Taxing your turf

The five highest local property tax states

State	Per capita property taxes
New Jersey	\$1,871
Connecticut	\$1,733
Maine	\$1,439
New York	\$1,402
Rhode Island	\$1,368

Source: Tax Foundation, based on 2002 Census Bureau data

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"Officials offered to take four percentage points off that," said Ahern for a rate of 19 percent. "But irate taxpayers wanted a much larger concession." They finally compromised, on knocking off 12 percentage points.

Those hardest hit

Property tax rises are a dark side of the housing bubble.

"Unlike income, or even sales taxes, property taxes are not accurate indicators of your cash at hand," said Ahern. They can go up faster than income.

They can have especially heavy impact on seniors. Many retirees bought homes decades ago when assessed valuations were modest and taxes manageable. After home prices soared, homeowners may have larger net worths, but no more spending money to pay higher taxes on their more valuable homes.

Downing claims taxes have forced many of his friends and neighbors out of his middle-class town. The issue has become a political hot potato in the state, which will elect a governor this November.

On Tuesday, candidate Douglas R. Forrester won the Republican nomination, in large part on his platform of lowering property taxes.

Impact on schools

There can be, however, a downside to lowering property taxes.

In California, proposition 13 came into effect nearly 30 years ago. This referendum set the tax rate at no more than 1 percent of the house base value (the sale price of a house) and banned increases of more than 2 percent a year.

Taxes on a \$300,000 home would come to no more than \$3,000 initially and could rise only \$60 after the first year, a maximum of \$121.20 the next, and so on. Big jumps only occur when homes are sold.

For many wealthy California towns, a small percentage of tax on multi-million dollar homes can raise a lot of money, keeping taxes for many individuals reasonable. But for poorer communities, these limits leave local governments strapped for cash. Result: California has some of the country's lowest spending school districts, which may have contributed to a decline in education.

According to the *San Jose Mercury News*, California now ranks 35th in expenditures per student among the 50 states, 50th out of 51 (including the District of Columbia) in computer access, and last in librarians. The test scores of fourth grade students came in 47th.

Other states have not followed California's lead. Some have set limits on tax increases, but they are usually ineffectively large.

Louisiana, for example, prohibits increases of more than 15 percent, according to Sepp. Even adhering strictly to that limit, taxes could double in five years.

That's not exactly millage.

What can you do?

Money magazine offers tips for coping with rising property taxes. Below are some of them. [Read the full story here.](#)

- **Challenge your assessment:** Property taxes are calculated using assessed valuations, yet few homeowners attempt to get their assessments lowered. Those that do are successful about 75 percent of the time. Assessor mistakes could include overestimating the home's size or number of rooms, not taking into account needed repairs, and poor choice of comparable property sales.

- **Check whether your state offers discounts:** Many places reduce property taxes for senior citizens, low-income residents, veterans, or the disabled.
- **Take your case to the voters:** Citizens like Howard Jarvis, who led the fight for Prop 13 in California, made a difference, maybe you can too. If you feel strongly that property taxes are out of control, join a tax reform group and lobby for change.

For more tips on easing property tax woes, click [here](#).

For a story about the most tax-friendly states, click [here](#). ■

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Which tax gets your goat?

A new poll finds a plurality of Americans think local property taxes are the worst.

April 19, 2005: 4:20 PM EDT

By *Jeanne Sahadi*, CNN/Money senior writer

NEW YORK (CNN/Money) - You pay a lot of taxes at the federal, state and local levels. Chances are you're not in love with any of them. But if you had to choose, which would you consider to be the least fair?

Apparently, a plurality of us think the local property tax is the worst, according to Gallup's most recent Tuesday Briefing analysis.

Of the more than 500 adults Gallup surveyed, 35 percent said their property tax was the least fair. Twenty percent, meanwhile, named the federal income tax, 14 percent cited state income tax, another 14 percent gave the thumbs down to their state sales tax, and 12 percent identified the federal Social Security tax.

Property tax is often the bugaboo of homeowners, but never more so than in a rapidly rising housing market.

Since property tax is based on the assessed value of your home, if you live in a neighborhood with appreciating home prices, your property tax bill is likely to go up, and potentially in a big way.

When home values rise significantly, many localities may reduce the property tax rate (the amount charged for, say, every \$1,000 in home value). Nevertheless, despite rate reductions the total tax bill often still goes up notably as it has in many areas across the country, said Harley Duncan, executive director of the Federation of Tax Administrators.

Besides rising home values, Duncan said, another reason homeowners may be paying more in property taxes now is because of a reduction in federal and state aid to local governments and schools between 2002 and 2004.

While state income tax revenues have been increasing over the past several quarters, the amount they had collected by June 30, 2004 was just back to 2000 levels.

So when it comes to giving aid to local governments, "revenue increases haven't made up for what we lost in the past two years," Duncan said.

One reason taxpayers may perceive that the property tax -- which is the main source of revenue for local governments -- is the most unfair is because increases are usually sudden and dramatic, suggested Bill Ahern, spokesperson for the Tax Foundation, a nonprofit policy research group that advocates, among other things, a simplified tax system.

By contrast, Ahern said, "Income and sales taxes are both collected in dribs and drabs."

Another reason may be that property tax isn't tied to a realized stream of money but rather to paper gains, he said. You're likely to pay more in tax when you earn more income or when you buy more things. But with property tax, you pay more when your home increases in value, regardless of any changes to your income or whether you ever realize that increased gain when you sell.

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Then there's the issue of whether you believe your home has been assessed fairly. There is some recourse if you believe it hasn't. To learn more, click [here](#).

Which states and cities are the most and least tax-friendly? Click [here](#) for the story. ■

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The dark side of the boom

As home values rise, so do property taxes. Here are seven tips for easing the sting.

January 11, 2005: 11:23 AM EST

By Jon Birger, Money Magazine

NEW YORK (MONEY Magazine) - Giddy about soaring real estate values? Darlene Murdick was too - until she saw her latest property tax bill.

A registered nurse in South Bend, Ind., she began investing in real estate 14 years ago to boost her income and provide for the long-term care of a daughter with Down's syndrome.

By 2003, the 40-year-old owned 67 apartments in what was then a rising local real estate market. Murdick's financial future -- as well as that of her daughter -- looked bright.

Then came Indiana's statewide reassessment.

"It was crazy," she says. "The actual values were nowhere near what the assessed values were."

Murdick's total tax bill doubled just when her local rental market had softened. Tenants moved out, fearing rent hikes. When she tried to sell properties, no buyers were willing to meet her asking prices.

"Not with the taxes jacked up," she says. Unable to come up with the additional taxes, Murdick walked away and let the banks foreclose.

Her experience may be extreme, but it's emblematic of a nationwide property tax phenomenon.

The spike in U.S. house prices -- 36 percent over the past four years -- has been a boon for sellers, yet rising values can be bittersweet for neighbors left behind.

Higher prices mean higher property tax assessments, but since these price gains exist only on paper, many homeowners struggle to pay their suddenly higher tax bills.

In the second quarter of 2004, for example, state and local property tax collections increased 9 percent, double the growth rate for personal income in the same period.

The good news is that property taxes are one area where fighting city hall usually pays off.

According to the American Homeowners Association (AHA), just 2 percent of assessments are appealed, even though about a third of all properties are overassessed. Among those that are appealed, a whopping 75 percent result in a reduction of taxes.

Mounting your own appeal can be time consuming. (Unless there are thousands of dollars at

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stake as opposed to hundreds, hiring an attorney is probably not worth your while.)

But the Internet has made it easier for you to determine if a municipal assessor's appraisal is out of line.

You can also turn to two excellent how-to-appeal guides: The National Taxpayers Union (\$7 at ntu.org) and the AHA (\$7 at homeownertaxcut.com) each offer one.

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Here are some key pointers:

Don't be fooled by assessor gimmicks "Fractional assessment," for instance, is a common practice that can trick people into believing they're undertaxed when the opposite may be true.

Consider Georgia.

Property there is assessed at 40 percent of the full market appraisal, so a Georgian who owns a home worth \$300,000 and assumes he's getting a bargain if his assessment says \$180,000 is wrong -- his assessment should be \$120,000.

If the local tax rate is 2 percent, he's paying \$1,200 too much.

Check the records for errors Visit your assessor's office and look over your property record card.

Ask for the assessor's work papers too (you're entitled to them): Perhaps he goofed on the bedroom or bathroom count, or inflated your square footage.

See whether the assessor considered defects, such as a leaky roof or an unusable fireplace, that can reduce your home's market value.

Review assessments and sale prices of similar homes nearby Once upon a time, this meant spending several hours at City Hall, poring over deeds and tax records.

These days, you can do much of the legwork online, either on local government websites or on real estate sites like Domania.com.

If comparable sales in your area are out of whack with the appraisal on which your assessment is based -- or if similar homes have lower assessments -- you have solid grounds for an appeal.

See if your area offers tax breaks Eligibility for things like homestead exemptions or rebates can vary, covering either all homeowners in a state or just subsets like veterans or the elderly.

Many owners, however, don't know these programs exist.

Wisconsin, for instance, offers property breaks for low-income homeowners, but only 43 percent of those eligible have actually applied.

Come prepared to your hearing Put as much of your case as possible in writing, and bring enough copies for each member of the appeals board. If you think the assessor missed cracks in the foundation, bring photos.

If you're arguing that your assessment doesn't jibe with recent sales in your neighborhood, bring documentation of those sales.

Don't be greedy If your case is borderline, don't bring it.

David Hugin, a real estate attorney in Austin, has seen plenty of weak appeals result in higher, not lower, assessments for the homeowners. Unless your home is overassessed by 5 percent or more, he says, it's probably not a good idea to appeal.

If all else fails, try politics Proposition 13 -- California's controversial 2 percent a year cap on property tax hikes -- was spawned by a runaway '70s real estate market similar to the one that exists today.

In Indiana, the Michiana Income Property Owners Association is now trying to drum up support for a state referendum modeled after Proposition 13. Among its leaders? One Darlene Murdick. "Without it," she says, "they're going to run everybody out of here." ■

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How tax-friendly is your state?

Local and state taxes can have a big impact on your take-home pay.

NEW YORK (CNN/Money) -- There are countless reasons why you choose to live where you live. The climate, the schools and the job opportunities are just a few. But state and local taxes can make a big difference.

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The Tax Foundation, a policy research group, estimated the average taxpayer's total state and local tax burden for 2005 in each of the 50 states and the District of Columbia. That burden reflects what residents pay in state and local income taxes, property taxes, sales taxes, luxury taxes and fuel taxes, among others. States below are ranked from least to most tax friendly. ([Read more about this table below.](#))

Click on column headings to re-sort »

State-Local Tax Burdens, Calendar Year 2005		
Rank	State	State/Local taxes as % of per capita income
	U.S. average	10.10%
1	Maine	13.00%
2	New York	12.00%
3	Hawaii	11.50%
4	Rhode Island	11.40%
5	Wisconsin	11.40%
6	Vermont	11.10%
7	Ohio	11.00%
8	Nebraska	10.90%
9	Utah	10.90%
10	Minnesota	10.70%
11	Arkansas	10.50%
12	Connecticut	10.50%
13	West Virginia	10.50%
14	New Jersey	10.40%
15	Kansas	10.40%
16	Louisiana	10.40%
17	Maryland	10.30%
18	Indiana	10.30%
19	Kentucky	10.30%
20	California	10.30%
21	Arizona	10.20%
22	Michigan	10.10%
23	Wyoming	10.10%
24	Washington	10.00%

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25	Iowa	10.00%
26	Mississippi	10.00%
27	Idaho	10.00%
28	North Carolina	10.00%
29	New Mexico	9.90%
30	Illinois	9.80%
31	Georgia	9.80%
32	Massachusetts	9.80%
33	South Carolina	9.70%
34	Virginia	9.70%
35	Pennsylvania	9.70%
36	Oregon	9.60%
37	Colorado	9.50%
38	Nevada	9.50%
39	Montana	9.50%
40	Oklahoma	9.40%
41	Missouri	9.40%
42	North Dakota	9.40%
43	Texas	9.30%
44	Florida	9.20%
45	South Dakota	8.80%
46	Alabama	8.70%
47	Tennessee	8.30%
48	Delaware	8.00%
49	New Hampshire	7.40%
50	Alaska	6.40%
	District of Columbia	12.20%

Source: [Tax Foundation](#), 2005

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The state/local tax burden reflects what a state and its local governments collect as a percentage of per capita income. So, for example, with a state/local tax burden of 10.4 percent, the state of New Jersey and its local governments get about a tenth of what its residents make per capita.

Of course, if you live in the Garden State your personal tax burden may be higher or lower. Much will depend, as it would in any state, on whether you own your home, where in the state you live, how much you make and the source of your income. ■

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No-money down mania

Wannabe millionaires are flocking to gurus who say anyone can get rich in real estate. Not exactly.

May 16, 2005: 11:46 AM EDT

By [Joan Kaplan](#) and [Scott Medintz](#), MONEY Magazine

NEW YORK (MONEY Magazine) - An afternoon session of the Ron LeGrand Massive Income Strategies Boot Camp is about to begin. LeGrand himself, a tall, well-tanned 58-year-old, sits onstage in the ballroom of a Florida golf resort.

His 400 students are settling into their seats when, from the back of the room, a thirtysomething man in a T-shirt strides up the aisle waving a piece of paper. Is he part of the show? If so, LeGrand doesn't let on.

Introducing himself as Todd, the man presents LeGrand with the document, a copy of a \$92,821 check, and announces, "This is from my latest deal." Todd explains that he'd been a truck driver before turning full time to real estate two years ago. Since then, he says, he's made \$1 million. The crowd goes wild. Boot Camp is in session again.

Get-rich gurus like LeGrand have been preaching the no-money-down gospel for decades, of course. But in today's housing boom, people have been listening like never before. In April an estimated 40,000 people flocked to the Learning Annex Real Estate Wealth Expo in Los Angeles. In New York, the same event attracted 25,000, up from 1,000 the year before.

And real estate advice rarely comes cheap. LeGrand's students pay \$2,995 for a weekend course. The Enlightened Millionaire Institute (EMI) charges well into five figures for premium packages that can include the opportunity to do deals with the gurus themselves.

It's tempting to dismiss seminar mania as just another hustle. But that's not entirely fair. Whether or not Todd was a plant (LeGrand's spokesman says no), the techniques LeGrand and others teach have indeed created millionaires.



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Would-be investors throng to a real estate expo.

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"There really is the opportunity to do extraordinarily well," says Dartmouth business professor John Vogel.

But what this inspiration industry downplays is that most students don't have the talent or timing or temperament to strike it rich. With real estate seminars turning out thousands of would-be moguls every month, all pursuing the same no-money-down schemes on the same fringes of a market bound to slow sooner or later, the odds of making a quick fortune in real estate are becoming vanishingly small.

What exactly do you learn?

Considering how much seminars vary in style and tone, their substance is strikingly uniform. Nearly all start with a single premise -- that you don't need money to make money in real estate -- and then walk their audiences through get-rich plays that require little or no capital.

"Bird-dogging," for example, is an entry-level technique that consists of scouting for other investors on a per-property basis. Find a fixer-upper, pass along the lead, and get a few hundred dollars if a deal results.

A more advanced method is "wholesaling," where you contract to buy a home and then -- before laying out cash -- sell your contractual rights to a rehabber for a few thousand dollars' profit.

More complex is a "subject to" contract, where the buyer gets the title to a property in return for making payments on the seller's mortgage. Or a "short sale," in which you offer a bank less than what's owed on a soon-to-be-foreclosed property.

To make any of these gambits profitable, you must buy the property for far less than its market value. The standard formula: Your "maximum allowable offer" (or MAO, as in "ham on rye, hold the") is 70 percent of a property's projected "after-repair value" (ARV) minus the repair costs.

So lots of seminar time is spent on tips for finding what speakers euphemistically call "motivated sellers" -- owners who, for whatever reason, are desperate to unload their homes. Every seminar recommends monitoring public death, divorce, bankruptcy and foreclosure notices, as well as cultivating relationships with realtors, brokers, lawyers and bankers who can tip you off to fresh cases of homeowners in distress.

Some have gimmicks for drumming up prospects. Dwan Bent-Twyford sells a line of "certified investor gear" -- T-shirts, tracksuits and tote bags emblazoned with "I buy houses ca\$h." LeGrand prefers "yellow letter" mailings -- hand-written notes on lined, yellow paper saying "I buy houses. Call me."

Salesmanship is key in no-money-down strategies. LeGrand asks investors with deals in the works to come onstage and demonstrate how they plan to sell their deal to the homeowner; LeGrand plays the role of the owner.

When a student stumbles over his words, LeGrand attacks. "You're reminding me that I'm three months behind on my mortgage payments?" he asks, incredulous.

He brushes the student aside and switches into the investor's role. "'I'm just calling to confirm' -- and then you repeat all the numbers you talked about before," he says. "Then you ask whether they're just looking for a few bucks to move. 'How much?' you ask. 'I can't read [my notes].' They'll probably say a few bucks less."

As the other students nod their heads, the man slinks back to his seat.

What you feel

Marketing and dealmaking advice alone isn't what draws people back to the seminar circuit time after time. Nor is it why people sit at the feet of not one but two or three or four gurus, since so much of the material is identical -- and can be found in books and on DVDs at a fraction of the cost of a single seminar.

MONEY Magazine: Your Home 2005: No-money down mania - May. 16, 2005

As with any self-help movement, the leader's charisma is crucial. The most successful real estate gurus have their share, though in the case of LeGrand and "Rich Dad, Poor Dad" author Robert Kiyosaki, it's a self-deprecating sort of anticharisma. Both come across as regular guys with failure in their pasts, the better for acolytes to feel there's hope for them as well.

The seminars also provide networking opportunities that you can't get with a book or DVD. Between sessions, deals get made and strategies get swapped among potted palms in the hotel lobbies.

But perhaps the seminars' most powerful pull is the sense they confer of membership in a favored group. Real estate entrepreneurs, it's implied, understand the world more clearly than others do. They see that the system is stacked against the little guy, but they've risen above conventional thinking and know how to succeed. Who wouldn't want to be part of that club?

At the end of a recent Real Estate 101 weekend, Vena Jones-Cox shouts to her audience, "What do you do?!" Three dozen folks respond as one: "I buy and sell real estate!" (Never mind that few have ever attempted a deal.)

A pillar of the no-money-down belief system is that nine-to-five work is contemptible drudgery.

"How many of you don't want a job anymore?" asks speaker Glenn Purdy at an Orlando EMI seminar. Hear the whoosh of a thousand hands being raised at once. (Never mind, again, that most seminar participants earn their living behind desks.)

The financial establishment comes in for special scorn as the natural enemy of contrarian, entrepreneurial thinking. Purdy asks for another show of hands: "Who thinks the country is in a recession?" he calls. About a third do. Who thinks it's not? Again, a third respond. "Congratulations," he says with a sarcastic grin. "You're all economists."

Little wonder, then, that seminar junkies rarely have trouble justifying their spending -- not just on meetings, but also on the relentlessly hawked additional courses and materials. Attendees and speakers alike say that the high expense itself helps motivate people to pound the pavement for deals, and that psychological investment naturally follows the financial kind.

"It's a ridiculous amount of money if you're not going to do anything," concedes Craig Cherry, a former engineer from Lusby, Md. who says he's spent about \$20,000 on real estate courses and materials. "But all I need is one idea and that \$5,000 seminar is paid for."

What goes unsaid

Inspired with a sense of empowerment and armed with manuals full of no-money-down notions, seminar participants emerge into the sunlight all ready to do deals. What they generally do not realize, however, is how hard it is to put what they've learned into action.

"These seminar leaders never talk about how much of your personal time it takes. They don't talk about the sweat equity," says James Webb, director of real estate studies at Cleveland State University.

There's the commonsense fact that homeowners who will part with their property for less than market value are hard to find. And the competition to find them first can be brutal.

Roshell Goodkin, a 30-year-old former chiropractic student who lives in Lighthouse Point, Fla., followed her seminar leader's advice for attracting sellers by including peppermint LifeSavers in each of her "I Buy Houses" letters. She later learned that some homeowners were getting five or six mints a day from other investors. And when the targets did respond, she says, they often played investors against one another.

What's more, new competitors are constantly being launched into business. Stephen Damiani is a 19-year veteran of the Brooklyn county clerk's office.

"Every time a big wave of people comes in looking for foreclosure lists," he reports with a roll of his eyes, "I say to myself, 'Oh, there must have just been a seminar.'"

Newbies can make expensive mistakes. Mickey Higgins, who represents lenders at New York City foreclosure auctions, saw one newly minted investor bid \$210,000 on a property thinking it was a condo.

"You should have seen her face when she realized it was just a parking space" in a condo's garage, he says.

When an inspection of their first investment home showed only minor termite damage, Helen and Robert Condry of Indialantic, Fla. went ahead and bought it for \$75,000. Fixing the problem turned out to cost \$24,000, wiping out their profits and then some.

Even if you find the right place at the right price, motivated sellers aren't always ideal partners. According to Cleveland State's Webb, many don't understand the terms or mechanics of the no-money-down-style deals that seminar graduates propose, and they get scared off. When they do sign, they are more likely than other sellers to back out later.

Most gurus make light of setbacks as mere bumps on an inevitable road to success. At the EMI Wealth Retreat, co-founder Mark Victor Hansen announces with a smile that both he and co-leader Robert Allen had been bankrupt. Then he turns to Allen and asks, "How did you sleep when you were bankrupt?"

"Like a baby," Allen answers on cue. "I woke up every two hours and cried."

The message that's conspicuously absent from most real estate seminars is that some people just aren't cut out for this stuff.

Maybe they can't master the complexity of the transactions or don't have the stomach to push cutthroat deals on vulnerable homeowners, or simply lack the ability to persuade people to do what may not be in their best interest.

Larisa Belliveau of Rochester, N.Y. was an MBA-trained technology-marketing manager at Xerox who lost her job to downsizing. In 2003, after hearing Glenn Purdy at an EMI seminar, she turned to real estate to make a living.

"He has a brilliant way of converting people, getting them excited," Belliveau recalls. "He had good stories that many of us could relate to -- a lot of pain and struggle."

Her first deal went smoothly: She bought a fire-damaged house for \$1 in February 2004 and "wholesaled" it to a rehabber the next weekend for \$2,500. She then tried buying soon-to-be-foreclosed properties after \$15,000 worth of courses and coaching with one popular guru. She pursued more than 60 deals over the next six months; none went through.

Belliveau blames herself for at least part of her failure. "If you want to make it work, it costs a lot," she explains. "And it's not for the faint of heart. I think I was too soft. You need to know how to sell houses quickly, how to talk to lenders, and the cost of repairs. It's a complex system."

All told, she studied under five gurus and three coaches, spending \$75,000 on classes, materials and marketing -- nearly all of it in credit-card debt that she hasn't paid off.

"I have no problem paying for what works," she says. "But I spent so much money with them. I did everything they said, and it didn't work."

Six promises they can't keep

1. You don't need money to make money.

Reality: You could easily spend thousands on mailings, newspaper ads and lists of homes near foreclosure. Then there's the cost of your time. Plus, you're often encouraged to borrow to finance your deals -- so by this logic, you don't need money if you have a credit card.

2. Real estate prices never go down.

Reality: Sure, the U.S. has never seen year-to-year housing price declines. But that's a national average. Properties in many regions, cities and neighborhoods have gone through periods of decline. And if you're financing your investments with debt, the smallest hits can have a magnified effect.

3. We're letting you in on a secret strategy.

Reality: No-money-down methods are neither new nor unknown. They've now been taught to millions via seminars, books, tapes, investor clubs, the Net and even community colleges, often for far less money.

4. You can get rich in your spare time.

Reality: Even the most seasoned investors say that on average they close only one deal for every 100 properties they see. Between combing the market for desperate sellers, looking at properties, negotiating deals, filling out legal documents and dealing with contractors, this is a full-time job for many people.

5. You can learn this business in a weekend.

Reality: More likely, come Sunday you'll just be dangerously confident. Or you'll have signed up for another course -- a victim of "upselling," the practice by which your guru reveals just enough information to leave you needing and wanting more.

6. Anyone can get rich in real estate.

Reality: Many gurus say that anyone who can't negotiate a good deal just isn't following instructions. But what they don't say is that some people simply lack the persuasive skills and aren't cut out for the aggressive scouting and sales tactics that these deals often require.

Other ways to learn real estate, plus one seminar that's worth it.

Investor clubs Real estate investor clubs can offer practical advice, knowledgeable guest speakers and networking with industry contacts -- without the seminar smoke and mirrors.

How to make sure your club is legit? Membership costs should total less than \$250 a year; most speakers should be local market experts (not traveling salesmen); and the focus should be on networking, mentoring and learning the ropes -- not buying books and DVDs. Search for clubs in your area at reiclub.com and nationalreia.com.

Web sites Rei-supply.com Offers one of the best investor discussion forums online. creonline.com Packed with solid info and how-to articles; free contract-form downloads; useful newsletter. realestatecoursereviews.com Seminar reviews by attendees

Seminar Real estate 101 by Vena Jones-Cox (therealestategoddess.com) This \$599 package includes an excellent 200-page introductory guide, a CD and a two-day seminar. Jones-Cox is funny, informed, inspiring and honest about risk.

Are home prices really so crazy? [Click here](#) to find out.

[Click here](#) to read about real estate investment clubs -- how how to tell good ones from bad. ■