

A Guide To Your Property Taxes And Proposal "A"

PROPOSAL "A"; WHAT ARE PROPERTY TAXES BASED ON?

On March 15, 1994, Michigan voters approved the constitutional amendment known as Proposal "A". Prior to Proposal "A", property tax calculations were based on Assessed Value.

Proposal "A" established "Taxable Value" as the basis for the calculation of property taxes. Increases in Taxable Value (following increases for additions and losses) are limited to the percent change in the rate of inflation of 5% whichever is less.

Even in years where we have a stable or depreciating market, Taxable Value of a property will increase every year until it reaches the Assessed Value.

The limit on Taxable Value does not apply to a property in the year following a transfer of ownership (sale).

Notice of Assessment

Each year, prior to the March meeting of the local boards of review, informational notices are mailed. The "Notice of Assessment, Taxable Value, and Property Classification" also includes the tentative State Equalized Value, the percent of exemption as a Principal Residence and if there was or was not a Transfer of Ownership.

The Notice includes the dates and times of the March Board of Review. The Board of Review can hear appeals of the current year's Assessed and/or Tentative Taxable Value, Property Classification Appeals and Poverty Exemptions under MCL211.7u.

Principal Residence Exemption

If you own and occupy your home as your principal residence, it may be exempt from a portion of local school operating taxes. On your "Notice of Assessment" the current percentage of your principal residence exemption is listed.

ASSESSMENTS, STATE EQUALIZED VALUE (SEV), CAPPED VALUE AND TAXABLE VALUE

1. **Assessed Value** (tentative SEV) is based on 50% of market value as required by state law. Although numerous factors are considered by the Assessor's Office in arriving at the initial market value of a property, changes in market value from year to year are attributable to changing sale prices of properties in an assessing neighborhood as well as additions, remodeling, etc. These changes in market value result in an increase or decrease in assessed value (tentative SEV). The sale price of an individual property does not set the assessors appraised value and property is not assessed at 50% of its sale price. After the assessment rolls of local jurisdictions are reviewed and approved (the equalization process) by the County and State, the assessed values become the **State Equalized Values**. SEV's are not subject to a "cap".

2. **Taxable Value** is the value to which the millage rate is applied. Taxable Value is subject to a "cap" and can only be increased by the amount of the Consumer Price Index (CPI) or 5% whichever is lower. This results in another value called Capped Value. Taxable Value must be the lower of the SEV or Capped Value which is computed as:

Capped Value = (Prior year's Taxable Value – Losses) x (the lower of 1.05 or the Inflation Rate Multiplier) + Additions

Additions are all increases in value caused by new construction, remodeling and the value of property that was exempt from taxes or not included on the assessment roll. Losses are all decreases in value caused by the removal or destruction of property, or the value of property that has been exempted or removed from the assessment roll. The Inflation Rate Multiplier is the increase in the Consumer Price Index (CPI) provided to all taxing units by the State Tax Commission. The CPI usually changes annually.

3. **What happens if I just purchased my home last year?** For all properties that sold during the prior year, the current year Taxable Value will be "uncapped" and changed to the State Equalized Value (SEV) of the property. There is no limit on the amount of change in Taxable Value in the year after a property transfers. In the following year, the cap goes back on the Taxable Value and increases in Taxable Value are now limited by the capped value formula.

4. **Last year my SEV was \$55,500 and my Taxable Value was \$55,500. What will my taxable value be this year?**

EXAMPLE: Our sales ratio study shows that market values increased in your neighborhood by 3%, this means that your current year SEV is:

$\$55,500 \times 1.03 = \$57,200$ (rounded)

The CPI increase was only 2.8% so your Capped Value is:

$\$55,500 \times 1.028 = \$57,054$

Your Taxable Value for this year is the lower of the State Equalized Value and the Capped Value, or \$57,054

5. **Last year my SEV was \$62,800 and my Taxable Value was \$61,000. What will my Taxable Value be this year?**

EXAMPLE: Our sales ratio study shows that market values did not increase in your neighborhood, this means that your current year SEV is:

$\$62,800 \times 1.000 = \$62,800$ (same as last year)

The CPI increase was 2.8% so your Capped Value is:

$\$61,000 \times 1.028 = \$62,708$

Your Taxable Value for this year is the lower of the State Equalized Value and the Capped Value, or \$62,708

WHY DID MY TAXABLE VALUE GO UP, IF MY SEV DID NOT INCREASE?

THE ASSESSOR (AND THE BOARD OF REVIEW) ARE REQUIRED BY STATE LAW TO INCREASE THE TAXABLE VALUE BY THE APPLICABLE RATE OF INFLATION (CPI). IT WOULD BE ILLEGAL FOR THE ASSESSOR TO SET THE TAXABLE VALUE AT ANY FIGURE OTHER THAN \$62,708 (AS SHOWN IN THE CALCULATED EXAMPLE)

6. **Last year my SEV was \$102,000 and my Taxable Value was \$100,557. I added an addition to my home last year. What will my Taxable Value be this year?**

EXAMPLE: Our sales ratio study shows that market values increased in your neighborhood by 2%. Also, the appraiser for your area has estimated that your addition will add \$15,000 to your SEV, this means that your current year SEV is:

$\$102,000 \times 1.02 = \$104,040 + \$15,000 = \$119,000$ (rounded)

The CPI increase was 2.8% so your Capped Value is:

$\$100,557 \times 1.028 = \$103,372 + \$15,000 = \$118,372$

Your Taxable Value is the lower of the State Equalized Value and the Capped Value, or \$118,372.

7. **If my Assessed value is lowered how will that affect my property taxes?** Taxes are calculated by multiplying the taxable value times the millage rate. Your taxes may increase, stay the same, or decrease. This is dependent upon the difference in your taxable value and your assessed value. The taxable value is always subject to a CPI increase. Unless your assessed value is lowered below your taxable value you will not see a decrease in property taxes.

EXAMPLE: Our sales ratio study shows that market values decreased in your neighborhood by 10%, and the CPI is 2.3% and your prior years assessed value was \$150,000 and your prior years taxable value was \$100,000.

SEV is:

$$\$150,000 \times 0.90 (-10\%) = \$135,000$$

Capped Value is:

$$\$100,000 \times 1.023 = \$102,300$$

Your Taxable Value is the lower of the State Equalized Value and the Capped Value, or \$102,300. Your taxes would not decrease in this example.

EXAMPLE: Our sales ratio study shows that market values decreased in your neighborhood by 10%, and the CPI is 2.3% and your prior years assessed value was 150,000 and your prior years taxable value was 140,000.

SEV is:

$$\$150,000 \times 0.90 (-10\%) = \$135,000$$

Capped Value is:

$$\$140,000 \times 1.023 = \$143,220$$

Your Taxable Value is the lower of the State Equalized Value and the Capped Value, or \$135,000. Your taxes would decrease in this example.

The following is the history of the Inflation Rate Multiplier as reported by the Michigan State Tax Commission:

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|-------------------------------|-------|-------------------------------|-------|
| 2006 utilized for <u>2007</u> | 1.037 | 2001 utilized for <u>2002</u> | 1.032 |
| 2005 utilized for <u>2006</u> | 1.033 | 2000 utilized for <u>2001</u> | 1.032 |
| 2004 utilized for <u>2005</u> | 1.023 | 1999 utilized for <u>2000</u> | 1.019 |
| 2003 utilized for <u>2004</u> | 1.023 | 1998 utilized for <u>1999</u> | 1.016 |
| 2002 utilized for <u>2003</u> | 1.015 | 1997 utilized for <u>1998</u> | 1.027 |