

2010 ASSESSMENT INFORMATION



UNDERSTANDING PROPOSAL A IN A DECLINING MARKET

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Proposal A

On March 15, 1994, Michigan voters approved the constitutional amendment known as Proposal A. Proposal A was designed to limit the growth in property taxes by the Consumer Price Index (CPI) until ownership in the property was transferred.

How It Works

Prior to Proposal A, property taxes were based upon State Equalized Value (SEV). With the implementation of Proposal A, property taxes are now based upon Taxable Value. Each year, the Assessing Office must calculate the SEV for every property based upon the period as outlined by the State Tax Commission. A property's taxable status is determined as of December 31, which is called Tax Day.

Additionally, each property has a Capped Value. Capped Value is calculated by multiplying the prior year's Taxable Value, with adjustments for additions and losses, by the CPI as calculated by the State of Michigan and cannot increase by more than 5%. **For 2010, the CPI has been calculated at -0.3%.** Taxable Value (TV), which property taxes are based on, is defined as the **lower** of State Equalized Value or Capped Value. **Generally speaking, this means that unless the current year SEV is less than the previous year Taxable Value multiplied by the CPI, the current years Taxable Value will change by the CPI.**

SEV = 50% of True Cash Value

Capped Value=(Prior TV-Losses) x (1+CPI*) +Additions

* Percent of change in the rate of inflation or 5%, whichever is less, expressed as a multiplier

Taxable Value = The lesser of State Equalized Value or Capped Value unless there is a transfer of ownership.

The Equalization Timetable

With significant declining market values, the State Tax Commission has instructed local assessors to use a 12-month sales study to determine residential values for the 2010 assessment cycle.

For 2010 assessments, the 12-month sales study begins October 1, 2008 and ends September 30, 2009.

Use of a 12-month study allows 2010 assessments to more closely reflect current market conditions; however, some areas may have a limited number of current sales.

Actual Sale Price is not True Cash Value

The law defines True Cash Value as the **usual** selling price of a property. The Legislature and the Courts have very clearly stated that **the actual selling price of a property is not a controlling factor in the True Cash Value or State Equalized Value** as calculated by the Assessor. For this reason, when analyzing sales for determining assessment changes, the Assessing Office will review all sales, but exclude non-representative sales from the assessment analysis.

Foreclosure Sales

Inherent in the definition of usual selling price is the assumption that the sale does not involve any element of duress in either party.

The State Tax Commission has issued guidelines concerning foreclosure sales and, generally speaking, these guidelines preclude the Assessor from considering foreclosure sales directly when calculating values for assessment purposes. If the assessor has verified additional market information, then these sales may be considered.

For this reason, all distressed sales, such as sales involving **mortgage foreclosure** or sales involving transfers to or from relocation companies, are usually not considered as typical sales in the valuation of property for assessment purposes; nor are they necessarily reliable indicators of value when making market comparisons for current assessed values or appeals.

Transfers of Ownerships and Uncapping of Assessments

According to Proposal A, when a property (or interest in a property) is transferred, the following year's SEV becomes that year's Taxable Value. In other words, if you purchased a property in 2009, the Taxable Value for 2010 will be the same as the 2010 SEV. The Taxable Value will then be "capped" again in the second year following the transfer of ownership. It is the responsibility of the buyer in a transfer to file a Property Transfer Affidavit with the Assessors Office within 45 days of the transfer. Failure to file a Property Transfer Affidavit will result in a penalty of \$5 per day for each day after the 45 day period with a maximum penalty of \$200. Property Transfer Affidavit forms are available from the local assessor.

Again, it is important to note that a property does not uncap to the selling price but to the SEV in the year following the transfer of ownership.

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. You may check your percentage of principal residence exemption on your "Notice of Assessment". If the percentage exempt as "Principal Residence" is 0% on your assessment notice and you wish to claim an exemption for the current year, a Principal Residence Exemption Affidavit must be completed and filed with the Assessors Office prior to May 1. Furthermore, if you currently have a Principal Residence Exemption on your property and you no longer own and occupy the property as your primary residence, you must rescind the Principal Residence Exemption with the Assessors Office.

Forms to claim a new exemption or to rescind a current exemption are available from the local assessor or at the www.michigan.gov website.

So what does it all mean?

How can I expect my assessment to change in 2010?

As stated in the Equalization Timetable, for 2009 the time period of the sales study for assessment review is October 1, 2008 through September 30, 2009. Sales occurring after October 1, 2009 will not be reviewed until the 2011 assessment cycle.

Using more current sales data means that **many SEV's in the area will be reduced again in 2010**. Areas with limited sales data in the current 12 month study may have little or no sales for the Assessor to use for the 2010 assessment roll. Therefore, some assessment adjustments will be based on market activity in the surrounding neighborhoods, general market trends or be frozen until market levels can be determined. Without sufficient sales to make proper calculations, you may find that your 2010 assessment may not go down as much as you think it should.

How does my Taxable Value change when my SEV goes down?

Remember that the definition of Taxable Value is the lesser of SEV or last year's Taxable Value (adjusted for physical changes) times the CPI. (-0.3% for 2010). Since the beginning of Proposal A in 1994, overall increases in SEV have generally been greater than the change in Taxable Value capped at the CPI. The longer a property has been owned and capped, the greater the gap between SEV and Taxable Value. Even with a decrease in SEV for 2010, **if there is still a gap between SEV and Taxable Value in the previous year, the Taxable Value may not change as much as the SEV. This year, 2010 Taxable Values will be decreasing by -0.3% (with no transfer).**

If, however, the 2010 SEV is **lower** than the calculation of last year's Taxable Value multiplied by the CPI, then the 2010 Taxable Value will be the same as the 2010 SEV.

Example of Declining State Equalized Value and Changing Taxable Value

This example illustrates a property, purchased in 1997 and uncapped in 1998. In 1998 the SEV becomes the new Taxable Value and then the property is subsequently recapped at the CPI. The SEV will increase or decrease based on market conditions. The Capped Value is adjusted by the CPI in the following year. Taxable Value is determined by using the SEV or Capped Value, whichever is less. In this example, the property experiences a loss in the SEV from 2005 to 2010. Although the loss was due to market conditions, the Taxable Value continues to increase by the CPI from 2005-2008. In 2009, the taxable value decreased to match the SEV, since it was lower than the capped value for 2009. The same is true for 2010. The gap between SEV and TV has been eliminated for this sample parcel.

Year	State Equalized Value	Capped Value	Taxable Value	CPI
1997	\$110,000	\$106,910	\$106,910	2.80%
1998	\$116,650	\$109,797	\$116,650	2.70%
1999	\$126,500	\$118,516	\$118,516	1.60%
2000	\$137,500	\$120,768	\$120,768	1.90%
2001	\$145,250	\$124,633	\$124,633	3.20%
2002	\$154,750	\$128,621	\$128,621	3.20%
2003	\$160,000	\$130,550	\$130,550	1.50%
2004	\$165,000	\$133,553	\$133,553	2.30%
2005	\$175,000	\$136,625	\$136,625	2.30%
2006	\$174,000	\$141,133	\$141,133	3.30%
2007	\$165,110	\$146,355	\$146,355	3.70%
2008	\$158,000	\$149,721	\$149,721	2.30%
2009	\$154,000	\$156,309	\$154,000	4.40%
2010	\$146,300	\$153,538	\$146,300	-0.30%

