Michigan Assessors Association

Dedicated to the improvement of Assessment Administration

Understanding Proposal A in a declining Market

Proposal A

On March 15, 1994, Michigan voters approved the constitutional amendment known as Proposal A.

Proposal A was designed to provide predictability and stability in regards to property taxes for Michigan property owners. To accomplish this the constitution was amended to limit the **increase** in 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 Assessor must calculate the SEV for every property based upon the time frame 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 or 5%, which ever is less. The CPI is calculated by the State of Michigan and the 5% limitation is part of the constitutional amendment. For 2009, the CPI has been calculated to 4.4% or a multiplier of 1.044.

Taxable Value (TV), which property taxes are based on, is defined as the **lower** of State Equalized Value or Capped Value.

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 increase by the CPI.

SEV = 50% of True Cash Value

Capped Value= (Prior TV-Losses) x 1.044* + Additions
*This is the annual change in the average consumer price index calculated from Oct 1st to Sept 30th.

Taxable Value is the **lesser** of SEV or Capped Value. If there is a change of ownership on the property the Taxable Value must be the SEV.

Equalizing Assessments for Uniformity

The purpose of assessment administration is to uniformly, fairly, distribute the total tax burden between properties within the jurisdiction. To establish the basis for these uniform assessments sampling procedures have been created and set in the rules of the State Tax Commission.

The rules provide for the use of a 24 month study, **April 1, 2006 through March 31, 2008 if** the sampling indicates the value of **properties are increasing** to provide a more conservative estimate of value.

The rules provide for the use of a 12 month study, **October 1, 2007 through September 30, 2008 if** the sampling indicates the value of **properties are decreasing** to more rapidly reflect the decreasing market in the assessments for individual properties.

Individual Sales may not be True Value

Michigan statute MCL 211.27 defines true cash value for assessment purposes as the usual selling price. That statute and court opinions have stated that **individual selling prices are not a controlling factor** when determining value for assessment purposes.

The assessor uses sales information to identify changes in market conditions but must use the same land and improvement rates for all properties in a given area whether the properties have sold or not.

Foreclosure Sales

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

The State Tax Commission has issued guidelines concerning foreclosure sales which allow for consideration of these sales on a limited basis within a structured process. **This means that such sales must be verified and analyzed** to determine if the individual sale represents usual selling price **and may not be used to set the assessment for that specific property.** (See individual sales information above)

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Transfers of Ownership and Uncapping of Assessments.

The limitation of Taxable Value under Proposal A is based on ownership. When a property (or interest in a property) is transferred, the Taxable Value in the following year must equal the SEV set on the property for the following year. Property that changed ownership in 2008 will have a 2009 Taxable Value equal to the 2009 SEV.

As noted previously, the Taxable Value of the property in 2009 will equal the 2009 SEV not necessarily 50% of the sale price in the 2008 transfer.

Principal Residence Exemption (PRE)

If you own and occupy your home as your principal residence, it may be exempt from a portion of local school operating taxes. If the percentage of PRE listed on your "Notice of Assessment" is zero you may wish to file a Principal Residence Exemption Affidavit with the local assessor. Copies of the affidavit form are available from the assessors office or online from the Michigan Department of Treasury.

In order to qualify for 2009, you must **own and occupy** the property as your principal residence by May 1, 2009. If you currently have PRE on property and you vacated the property prior to January 1, 2009, you must file a form to rescind the PRE for 2009.

What to Expect in 2009

How your assessment and Taxable Value change in 2009 is dependant on whether property values in your community are increasing, decreasing or not changing much at all. The assessor will use sales information from neighborhoods within your community to make decisions about which properties change and the amount of the change.

It is important to keep in mind that when conducting studies the assessor is comparing the sale price of properties that sell with the **assessment** previously placed on that property. It is not a comparison between what the property sold for two years ago to what it sold for last year.

How can my Taxable Value go up when the value of my Property goes down

The constitutional limitation on Taxable Value is a limit on the **increase** in Taxable Value. Remember that the intention of Proposal A was to provide predictability and stability with regard to tax bills.

To accomplish that, Taxable Value is limited in the amount that it can increase in any single year. In order for a property tax structure with caps to be fair to all taxpayers, including those who are paying at 50% of True Cash Value, the Taxable Value must be increased by the CPI until it reaches the SEV which is 50% of True Cash Value.

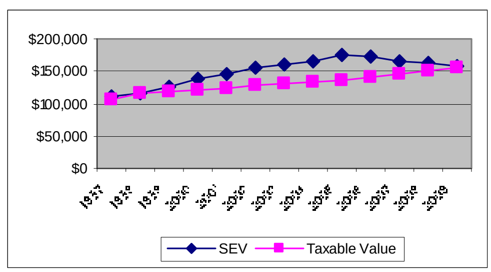
On any property that had a Taxable Value less than the SEV in 2008, the Taxable Value will increase by the CPI, 4.4%, until it reaches the SEV.

Example of Declining State Equalized Value and Increasing Taxable Value

The charts below illustrate a property, purchased in 1997 and uncapped in 1998. In 1998 the Taxable Value must equal the SEV as a result of the transfer of ownership. Beginning with the 1999 Assessment Roll, and each year thereafter, the Taxable Value on this property is limited by the provisions placed in the Constitution by Proposal A.

The increase in the Taxable Value is limited to the CPI each year and is listed on the following chart. The chart indicates a steady increase in the SEV of the property through 2005. Thereafter there is a decline in the SEV through 2009. Even though the SEV declines there is an increase in the Taxable Value because the Taxable value is less than the SEV and must increase until it reaches the SEV.

	SEV	Capped	Taxable	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	162,000	149,721	149,721	2.30%
2009	157,000	156,309	156,309	4.40%



The graph above indicates that, on this specific property, the mechanics of Proposal A are performing exactly as they were designed. The Taxable Value has increased at a slower rate than the SEV providing stability and predictability for the property owner. If the property value continues to decline in future years the property owner will see a decline in the Taxable Value when the SEV drops below the CPI increase.

The increase in Taxable Value while the SEV is declining is required not only based on constitutional language but also in order for taxes to be levied on a uniform basis between property owners with Taxable Values less than the SEV and property owners with Taxable Values equal to the SEV.