

BASIC EXPLANATION OF PROPERTY ASSESSMENTS AND TAXES

Proposal A, passed by the voters in March of 1994, drastically changed the property assessment and taxation system. The purpose of Proposal A was to give homeowners some relief against increased taxes due to the rapidly rising housing market. Prior to Proposal A, taxes were calculated on Assessed Value while since Proposal A, taxes are calculated on Taxable Value.

Before beginning an explanation of Proposal A's impact, we need to define some commonly used assessing terms.

- **Assessed Value (AV):** AV is 50% of the usual selling price (market value) or true cash value of your property.
- **State Equalized Value (SEV):** The SEV is the assessed value as finalized by the County and State Equalization Process. In most cases, the SEV and AV will be the same.
- **Consumer Price Index (CPI):** The CPI is determined each year by the State of Michigan. Every municipality in the State is required to use the CPI to calculate the capped value. The CPI is not subject to appeal.
- **Capped Value:** The capped value is a calculated value which takes last year's taxable value minus any physical losses (i.e.: demolition), increased by the CPI or 5%, whichever is less, plus any physical additions (i.e.: new construction)
- **Taxable Value (TV):** The TV is the lesser of the SEV or the Capped Value. This is what your taxes are based on. In most circumstances, the TV is not subject to appeal. Proposal A states that starting in 1995, the capped value shall be increased by the amount of the CPI or 5%, whichever is less. However, as established in the old law, the SEV is to be 50% of the usual market value. Consequently, the capped value and SEV could be totally different. This "capping" process will continue annually until the property is sold and/or ownership is transferred. A property is "uncapped" in the year following a transfer of ownership. This means that the TV for the year following a transfer is required to be the same as the assessed value for that year. The year after the property is uncapped, increases to the TV will once again be limited by the CPI or 5%, whichever is less, unless there are physical changes made to the property. The reality of Proposal A is that property taxes will not decrease until the AV is set lower than the TV or the millage rates are reduced. Even in a declining market, a TV will increase on an annual basis until it is equal to the AV.

Frequently Asked Questions

- **I just received a Notice of Assessment that has "This is not a bill" on it. What is it and what does this mean?** Every property owner is notified of their property's assessed value, taxable value, property classification, Principal Residency Exemption status and the dates of the Board of Review on their annual Notice of Assessment. If you disagree with your assessment, then the BOR is the place to start. You should contact your local assessor for additional BOR information.

• **What is the Board of Review and what does it do?** The Board of Review (BOR) is a panel of property owners in your jurisdiction. Their duty as members of the BOR is to hear property assessment appeals, property classification appeals, applications for hardship exemptions, and to correct any clerical errors or mutual mistakes of fact that occur after assessments are finalized each year.

• **I recently purchased a home in Cheboygan County. Why isn't my assessed value one-half of what I paid for the property?** General Property Tax Law prohibits an assessed value from being set at one-half of a particular sale price. All arm's length sales of similar properties must be considered in determining assessed values. *Arm's length sales* generally exist when the property has had proper exposure on the open market and involves an informed buyer and seller each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus or special financing.

• **Why can't current real estate listings be used when determining the value of my home for assessment purposes?** Current real estate listings cannot be used in determining the true cash value and resulting assessed values of local properties. AV cannot be based on speculation as to what a home might sell for. By law, AV'S must be based on confirmed arm's length sales that have taken place.

• **Are financial institution sales used in the sales study?** Normally, sales that involve mortgage foreclosures and sales from relocation companies (Distressed Sales) are not considered typical sales and are not used to determine the value of property in the assessment process. The State Tax Commission has allowed the use of these sales but only under strict conditions. The assessor has to be able to contact and interview the mortgage company holding the original mortgage, the seller, the buyer, and the buyer's mortgage company. The assessor must also be able to perform an interior inspection to determine that the structure when sold remains in the same condition as when it was assessed.

• **How do I calculate an approximate amount of annual property tax dollars for a property?** You would multiply the current years TV by the total millage rate depending on Principal Residency status, then divide by 1000 (i.e.: $TV \times \text{Millage rate} / 1,000 = \text{estimated taxes}$). This will give you an approximate annual amount of property tax. This formula does not include any administrative fees or special assessments that may apply to your property. Millage rates can change from year to year, as does a property's TV; therefore it can be difficult to determine an exact amount until the millage rates are finalized shortly before the taxes are billed. You should contact your local assessor to obtain millage rate information for your city or township.

• **How often is my property evaluated?** The General Property Tax Law requires all properties to be evaluated each year. This does not necessarily mean that a field inspection is made of each individual property each year. Assessed values are generally determined by mass appraisal techniques. This is done by grouping similar property types together and analyzing the sales activity in those groups as well as performing field inspections on a sampling of properties within these groups. It is important that property owners periodically review their property record cards, which are available from your local assessor.

This hand out is an abbreviated explanation of a very complex issue. The articles you read in the newspapers and the reports you hear in the news are national and/or metropolitan reports that cover a very large area. It is the duty of the Assessor to closely monitor and analyze the sales that take place in their city or township so that assessments represent the market activity of that specific jurisdiction. If you have any questions and/or concerns, do not hesitate to contact the Beaugrand Township Assessor:

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