

UNDERSTANDING PROPOSAL A IN A DECLINING MARKET

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PROPOSAL A

In 1994, Michigan voters approved the Michigan Constitutional amendment known as Proposal A, establishing "Taxable Value" as the basis for calculating property taxes. The intention was to make changes to the Taxable Value more gradual by tying them to the rate of general inflation. There are four major figures that every taxpayer should know:

(1) ASSESSED VALUE (AV) equals half of the *usual* selling price (the usual selling price is also referred to as the "True Cash Value"). The Michigan constitution requires that Assessed Value shall not exceed 50% of market value or true cash value of the property.

(2) STATE EQUALIZED VALUE (SEV) is the Assessed Value as adjusted by an annual review by the County Equalization Department and State Tax Commission to ensure that all assessing jurisdictions' values are not exceeding 50% of market value and assessing practices through out the state are uniform. In the City of Kalamazoo, the SEV is almost always equal to the Assessed Value.

(3) CAPPED VALUE (CV) equals last year's taxable value increased by the amount of inflation (Consumer Price Index, up to a maximum of 5%) plus/minus physical changes (additions/losses) to the property.

For 2009, the CPI has been calculated at 4.4%. The Constitution requires the State to calculate the annual CPI and every assessor to utilize this CPI. No taxing authority has the legal right to disregard or alter the CPI.

(4) TAXABLE VALUE (TV) equals the lesser of the State Equalized Value or the Capped Value.

Each year, the Assessing Office must calculate the Assessment 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 of the prior year, which is called Tax Day.

With significant evidence of declining market values, the Kalamazoo County Equalization Department has allowed the City of Kalamazoo to consider a 12 month sales study to more accurately reflect current market conditions for the 2009 assessment cycle.

For 2009 assessments, the 12 month sales study runs from October 1, 2007 through September 30, 2008.

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 the purpose of 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 distress from either party.

The State Tax Commission has issued guidelines concerning foreclosure sales and generally speaking, these guidelines preclude the Assessor from considering foreclosure sales when calculation values for assessment purposes.

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

WHAT IS "UNCAPPING"

The Taxable Value on a property is said to be "Capped" if the property owner did not purchase it in the preceding year. On "Capped" properties the Taxable Value is calculated as above, however, the Taxable Value can NEVER be more than the SEV.

By State Law, when a property is sold or otherwise transferred, the Taxable Value in the year *FOLLOWING* the transfer, will be made equal to the SEV and thus is said to be "Uncapped" for the year. After the "Uncapping", the Taxable Value is capped for future years until there is another transfer of ownership on the property.

Whenever a transfer of ownership occurs, a Property Transfer Affidavit (PTA) must be filed by the purchaser. This form should be filed with the local assessor within 45 days from the date of transfer. This form is used by the assessor to determine whether a property is to have its taxable value "capped" or "uncapped".

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

WHAT IS A PRINCIPAL RESIDENCE EXEMPTION (“PRE”)?

If you own and occupy your home as your principal residence by May 1st of the current year and file a form with the City Assessor by May 1st of the current year, you 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 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.

How can my Taxable Value go up 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 (4.4% for 2009)

Since the beginning of Proposal A in 1994, overall increases in SEV have generally been greater than the increase in Taxable Value utilizing 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 2009, **if there is still a gap between SEV and Taxable Value and the 2009 SEV is greater than the Taxable Value in the previous year, the Taxable Value will increase to the limit of the CPI.**

If, however, the 2008 SEV is lower than the calculation of last year’s Taxable Value multiplied by the CPI, then the 2009 Taxable Value will be the same as the 2008 SEV.

Example of Declining State Equalized Value and Increasing Taxable Value

Let’s say that a property was sold in 1995. The property became uncapped and then recapped in 1996. The TV is changed to equal the SEV. The SEV will always increase or decrease as it adjusts to market conditions. The CV cannot go above the inflation rate (CPI) or 5%. The TV is the lower of the SEV or CV, except the year after a sale/transfer. The SEV in this case goes down from 2005-2009. The TV continued to increase by CPI during 2005-2009. The TV will increase every year by the CPI rate unless the SEV value falls below the CV. * Annual Taxes in the chart are based on an owner-occupied home in the Kalamazoo School District portion of the city—the 2009 rate is estimated.

	SEV	Capped Value(CV)	Taxable Value(TV)	Annual Taxes*	CPI
1995	\$100,000	\$97,000	\$97,000	\$4,315	2.60%
1996	\$104,000	\$104,000	\$104,000	\$4,833	2.80%
1997	\$110,000	\$106,912	\$106,912	\$4,947	2.80%
1998	\$116,650	\$109,799	\$109,799	\$5,118	2.70%
1999	\$126,500	\$111,555	\$111,555	\$5,223	1.60%
2000	\$137,500	\$113,675	\$113,675	\$5,322	1.90%
2001	\$145,250	\$117,313	\$117,313	\$5,615	3.20%
2002	\$154,750	\$121,067	\$121,067	\$5,851	3.20%
2003	\$160,000	\$122,883	\$122,883	\$5,815	1.50%
2004	\$165,000	\$125,709	\$125,709	\$6,103	2.30%
2005	\$175,000	\$128,600	\$128,600	\$6,439	2.30%
2006	\$169,804	\$132,844	\$132,844	\$6,834	3.30%
2007	\$165,110	\$137,759	\$137,759	\$7,003	3.70%
2008	\$160,000	\$140,928	\$140,928	\$7,164	2.30%
2009	\$150,200	\$147,128	\$147,128	\$7,562	4.40%

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Property Tax Explanation Presentation

