PROPOSAL A
Taxable Value

During the 1993-94 legislative session, the Michigan Legislature presented the voters with two proposals that would alter the valuation and taxation of real and personal property. The voters rejected the first proposal, but on March 15, 1994, approved the second one--Proposal A. Additionally, the Legislature dramatically changed the method of financing the operations of local school districts. Both actions provided property taxpayers, particularly owners of homesteads and farm property, relief from what many had considered a highly burdensome form of taxation. Described below are the changes in property tax administration that occurred during this historic period.

The Michigan Constitution, which establishes the foundation of the property tax, was amended so that dramatic increases in taxable value which were caused by inflationary forces would no longer occur. Tax increases will no longer automatically jump up even if the market value of property is driven up by the general economic forces which affect the real estate market.

The 1994 constitutional amendment, known as Proposal A, states the following:

1. Assessment cannot exceed 50 percent of true cash value, defined as the usual selling price of property.
2. The system of county and state equalization has not been changed or eliminated.
3. The taxable value of each parcel shall not increase more than the lesser of the Consumers Price Index or 5%, except that adjustments are made for additions and losses. (The Consumers Price Index for the period of October 1 to September 30 will be published annually by the State Tax Commission.)
4. When the ownership of property transfers, the taxes will be spread against 50% of the true cash value, as determined by the assessor in the year following the transfer.

Therefore, the existing system of assessing at 50% of true cash value continues. The board of review will continue to function as it has in the past regarding reviewing the assessment roll and reacting to complaints from taxpayers. The calculation of county and state equalization will continue to function. The County Board of Commissioners will meet in April to adopt county equalized values for each class of real and personal property in each assessing unit, and equalized values for each class of real and personal property in each assessing unit in that county. In May, the State Tax Commission will adopt state equalized values for each class of real and personal property in each county in the state.

Two new terms will be used in the administration of the property tax system: "Taxable Value" and "Capped Value." Capped value may also be referred to as "Tentative Taxable Value."

"Taxable value" is the value against which taxes will be spread starting in 1995. "Capped value" is the maximum amount to which the taxable value of each parcel could be increased in any given year. Taxable Value multiplied by Millage Rate equals Property Tax.

For example: $50,000 (Taxable Value) x 40 Mills = $2000 Property Tax Bill.

Three things are known about taxable value:

1. Taxable value cannot exceed 50% of true cash value. Therefore, it is necessary to continue the present assessment system in order to know what 50% of true cash value is for every property.
2. Taxable value cannot increase each year by more than the Consumers Price Index or 5%, whichever is less, except that adjustments are made for additions and losses.
3. In the year following a transfer of ownership, the taxable value is 50% of true cash value and any prior taxable value is no longer used in the calculation of taxable value.

A system of calculation of capped value and taxable value will be followed each year prior to spreading taxes and mailing tax bills to property owners.

1. The present system of assessments and equalization will continue so that the assessor will know what 50% of true cash value is on each property. The assessed value and taxable value cannot exceed that amount.
2. The assessor must calculate the capped value for each parcel that limits the increase of taxable value. This is necessary because the 1994 constitutional amendment and the general amendment and the general property tax laws limit the annual increase in taxable value. This limited increase is to be no more than the annual increase in the Consumers Price Index or 5%, whichever is less. Capped value may also be referred to as that property's tentative taxable value.
3. The lesser of state equalized value (#1) or capped value (#2) will be the taxable value for that property.
4. Except that when ownership is transferred, taxable value will be 50% of the true cash value in the following year.

Formula for State Equalized Value:

SEV = Assessed value x State Equalization factor

Formula for Capped Value:

Capped value = [prior year's taxable value - losses] x [The lower of 1.05 or the CPI expressed as a multiplier] plus SEV of additions

Formula for Taxable Value:

Taxable value = the lower of SEV or capped value, unless there has been a transfer in the previous year.

Taxable value in the year following a transfer = 50% of true cash value

Example no. 1 -- A home worth $120,000.00 has a 1994 state equalized value of $60,000. Values are rising in the area and the value of this property for 1995 assessment purposes has gone up 5% in 1994 to $126,000, and the new assessment is $63,000. No changes have been made to the property in 1994 by the owner. Assume the Consumers Price Index is 3%. What is the capped value, state equalized value and taxable value for 1995?

1995 capped value = 1994 SEV - Losses x (the lower of 1.05 or 1.03) + the SEV of additions = $60,000 - 0 x 1.03 + 0 = $61,800

1995 State Equalized Value = $63,000

1995 Taxable Value = $61,800

Example no. 2 -- In calendar year 1995, the owner adds a garage worth $8,000. Values continue to rise in the area and the value of this property goes up another 4%. The value of this property for 1996 assessment purposes is $140,300. The consumer's price index is 6% for the Year. The capped Value, SEV and Taxable Value for this property are calculated as follows:

1996 capped value = (1995 Taxable value - losses) x (The lesser of 1.05, CPI) = $61,800 x 1.05 + $4,000 = $68,890

1996 SEV= $69,500 (63,000 x 4% + 4,000= 69,500)

1996 Taxable Value= $68,890

Transfers

1. The taxable value of property whose ownership has transferred will be the same as its SEV in the year following the transfer.
2. The legislature has defined transfers as the conveyance of title to or a present interest in property, including the beneficial use of the property, the value of which is substantially equal to the value of the fee interest. The legislature has excluded some types of conveyances from the definition of transfers. The taxable value of these exclusions remains limited by the formula which limits increases in taxable value.

A taxpayer will be able to appeal the capped value or tentative taxable value as well as the assessed valuation to the board of review. The assessed value will be subject to equalization as in the past. The taxable value will then be the lower of the capped value or state equalized value.