Understanding Proposal A and your Property taxes in a Declining Market

If you look at your 2009 Assessment change notice, you will see two numbers: Your home's assessed value and your home's taxable value. These two numbers can be confusing for homeowners. The assessed value (which is also known as SEV) represents ½ of the home's perceived market value. The taxable value is the value for your property that we use to calculate property taxes. If you have owned your home for a few years or more, you will probably see a difference in the two numbers.

The difference between assessed value (SEV) and taxable value are a result of Proposal A, a statewide proposal that was passed by State of Michigan voters in 1994. Proposal A capped the percentage that the Taxable value of your home could increase each year to 5% or the rate of inflation (whichever is less). Therefore, theoretically, the market value of your home could increase exponentially, but your taxable value (and therefore your property taxes) could only increase the lesser of 5% or the rate of inflation. When a home is sold, the taxable value uncaps or pops up to the assessed value and the process begins all over. If your taxable value is less than the assessed value, take consolation in the fact that you have received the benefit of Proposal A by virtue of only paying property taxes on a portion of the market value of your home. Before Proposal A, you would have paid taxes on the assessed value and therefore more property taxes.

History of Proposal A
In 1994, Proposal A was placed on the ballot statewide to give voters a chance to limit the growth in property taxes by the Consumer Price Index (CPI) until the ownership in the property was transferred. Proposal A was a response to the economic times in the early 90's when there was robust economic growth. Many people had trouble keeping up with their taxes because the property values around them were skyrocketing driving the value and taxes on their property up faster than they could afford. From 1994 to approximately 2006, Proposal A worked well limiting the growth in property taxes for those who remained in their home. Unfortunately, in the current economic downturn, Proposal A can be difficult to understand.

The policy makers in 1994 never envisioned the downturn in the economy or real estate market. We now have the awkward situation in which some property values are going down but taxes are going up. In general, there was no increase to the assessed value of residential property in the City of Leslie in 2009. However, as mentioned previously, Proposal A mandates an increase in the taxable value of 5% or the rate of inflation, **whichever is lower**. For 2009 the inflation rate is 4.4%.

Here is an example of what is happening to many homeowners (using estimated round numbers). Let's say you purchased your property 10 years ago for $100,000 (and property was assessed at $50,000). The perceived market value increased to $150,000 in 2008 (and assessed value increased to $75,000). The taxable value which started at $50,000 10 years ago has only increased to $60,000 in 2008 because of the limits of proposal A (saving the taxpayer money). In 2009, because of the declining economy, the home's perceived value decreases to 140,000 (assessed value of $70,000), however, the taxable value still increases 4.4% in 2009 because of proposal A to $62,640. As long as the taxable value remains below the assessed value, the taxable value can and will increase every year by the amount required under proposal A. For newer home owners, the assessed value and the taxable value may be the same (assessed value will never go below taxable value). Therefore newer home owners may not see any increase and in some cases may see a decrease in their taxable values.

It is important to note that local units of government cannot artificially increase values to generate more revenue. Proposal A limited the increase in taxable values when assessed values were increasing at a much higher rate. This is happening all across Michigan and not just in Leslie. For more information, please visit:

http://www.michigan.gov/taxes/0,1607,7-238-43535---,00.html
http://www.michigan.gov/treasury/0,1607,7-121-1751---,00.html

How Your Home Is Assessed
The State Tax Commission has determined that most units statewide should use a 12 month sales study to determine values for the 2009 assessment cycle. For 2009 assessments, the 12 month sales study begins October 1, 2007 and ends September 30, 2008. Use of a 12 month study allows 2009 assessment to more accurately reflect current market conditions, however, the limited number of current sales also means that many areas of Leslie have limited data for the Assessor to calculate current assessments. It may be necessary for the Assessor to expand areas for reviewing neighborhood analysis or estimate market changes based upon area trends.

Sale price is not presumed to be True Cash Value.
The law defines True Cash Value as the usual selling price of a property. The Legislature and 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 assessor will review all sales but exclude non-representative sales from the assessment analysis.

Foreclosure Sales
Inherent in the definition on "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 in some instances when calculating values for assessment purposes. For this reason, most distressed sales, such as sales involving mortgage foreclosure or sales involving 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.