Q. How are my property taxes calculated and how can they continue to increase if my property value is decreasing?

Individual tax bills are calculated by multiplying the taxable value times the local tax millage rate. The tax rate is often referred to as the millage rate because it is expressed in mills. A one-mill tax means you pay $1.00 in tax for every $1,000 of taxable value to which it applies. For example, if your property has a taxable value of $10,000 and the tax rate is 50 mills, your tax will be $500 ($10,000 x .050).

As a result of Proposal A which was enacted by a statewide vote in 1994, the formula for calculating Michigan's Property Tax was changed to be based on two factors - taxable value and state equalized value. Although the new formula limited the annual increases in a property's tax base (taxable value) to the lessor of 5% or the rate of inflation, the state equalized value continued to be determined at 50% of a property's market value. Because of the limitation placed on a property's tax base (taxable value), it became likely over time that a property's state equalized value would become significantly greater than it's taxable value so that even with a decrease in market value, the state equalized value may continue to be greater than the calculated capped value of the property. Because the taxable value of a property is the lessor of it's capped and state equalized value, it would be possible for the tax base to continue to increase while there is a decrease in state equalized value. However, at no time will the tax base (taxable value) ever exceed the state equalized value of a property.

Q. What is Taxable Value?

The Taxable Value of a property is the lesser of its State Equalized Value or its calculated capped value. Before the approval of "Proposal A" by the electorate in 1994, property taxes were calculated against the State Equalized Value of a property. The limitations imposed by "Proposal A" necessitated the creation of two new values to implement these limitations. These are identified as "taxable" and "capped" value.

Q. What is Capped Value?

One of the limitations imposed by "Proposal A" was that the value against which taxes were calculated (taxable value) could not increase from year to year by more than the consumer price index or 5.0%, whichever was less. Physical additions or losses to a property are also included in the calculation. The formula for this annual calculation is the prior year taxable value, minus any losses (i.e. removal of a physical structure), times 1*.**05%*** or the consumer price index, whichever is less, plus any additions (i.e. new construction), equals Capped Value.

Q. What is County and State Equalized Value?

The assessed values as determined by the local assessing official are reviewed annually by the county equalization department. Based on this review, the county equalization department may

recommend to the county board of commissioners that value be added to or deducted from those assessed values if the average level of assessment falls above or below 50% of true cash value as defined by law. Once adopted, the county equalized values are subject to review by the Michigan State Tax Commission. The commission may add to, subtract from, or approve the county equalized value as submitted. Once this action is completed on the fourth Monday of May, it becomes the State Equalized Value.

This process is necessary to establish and maintain uniformity between the aggregate assessments in each township and city within the county and insure that the tax burden among the state's counties, townships and cities is equally distributed.

Q. If taxes are calculated using taxable value, why are assessed and state equalized values still necessary?

Although many equalization tasks consider the aggregate value of property within a class rather than individual values, it is important to remember two things about equalized and taxable values. First, if the calculated capped value of a parcel exceeds the state equalized value, the state equalized value becomes the taxable value. Second, if the property has had a transfer of ownership in the previous year, the state equalized value becomes the taxable value for the year following the transfer of ownership, effectively "*uncapping*" it. It important to note here that the assessed value as equalized is not determined using 50% of the property's selling price. This is a common but inaccurate assumption.

Q. What can I do if I disagree with the assessed or taxable value on my property?

First, you should talk to your local assessor about the valuation he/she has placed on your property. Request and review the appraisal record for your property to make sure that all the facts about your property are correct. If the value placed by the assessor seems to be way above actual market value or above that of identical or similar properties in the area, there may be inaccuracies in the data upon which the assessment is based or possibly an error in the computation of the assessment.

If there are no clerical errors or mistakes of fact and you still disagree, the next step is to appeal your assessment with your local March Board of Review. This board of review is established as part of an appeal process provided by law to assure that the state's tax system operates in a fair and equitable manner. The board of review consists of three, six or nine members, who are appointed by the Township Supervisor, and approved by the Township Board of Trustees at a public meeting. They will hear your appeal and make a decision using their best judgment based on the information you present to them. As a property owner, you must appeal in a timely manner to take advantage of this process provided for you by law.

Q. What if I'm not satisfied with the decision of the March Board of Review?

You have the right to file an appeal with the Michigan Tax Tribunal. This appeal must be filed

on or before June 30th of the current year. The address to use is:

Michigan Tax Tribunal
1033 S. Washington
P.O. Box 30232
Lansing, Michigan 48909
Telephone 517-373-3003

Q. What about Homestead and Qualified Agricultural Properties?

Property owners may declare their principal residence as a homestead and exempt the property from 18 mills of local school operating tax by filing a Homeowner's Principal Residence Exemption Affidavit. In order to qualify as a homestead property, the property must be owned and occupied as a homestead by May 1 of the first year the exemption is claimed.

The 18 mill local school operating tax exemption also extends to properties classified as "agricultural". Owners of non-agricultural classed property devoted primarily to qualified agricultural uses may also be eligible for the exemption by filing a Farmland Exemption Affidavit with their assessor. Please contact your assessor's office for additional information regarding principal residence and qualified agricultural exemptions.

Q. What is a Qualified Agricultural Transfer Exemption and Can I Benefit From It?

Public Act 260 of 2000 was enacted in an attempt to preserve farmland by offering an incentive to keep property in qualified agricultural use. Under the act, qualifying transfers are exempt from uncapping as long as the property remains qualified agricultural property after the transfer and the person to whom the property is transferred files the prescribed affidavit with the assessor and the register of deeds. The signer of the affidavit attests that the property will remain qualified agricultural property following the transfer.

However, what happens when property which has been exempt from uncapping under the provisions of Public Act 260 later ceases to be used as qualified agricultural property? Understanding the answer may help in determining whether filing the affidavit is beneficial or not, depending on the transferee's planned future use of the property.

When qualified agricultural property, which has been exempt from uncapping, ceases to be qualified agricultural property because of a change in use, the act requires the taxable value of the property to be uncapped in the calendar year following the change of use – meaning that the state equalized value of the property becomes the taxable value for that year. This provision applies to the entire parcel even if only a portion of the property ceases to be used for a qualified

agricultural purpose.

The property also becomes subject to Public Act 261 of 2000 (Agricultural Property Recapture Act) and the imposition of a recapture tax. This tax is calculated and collected by the county treasurer on the period in which the benefit was received consisting of the most recent seven years of tax savings (excluding the year in which the change in use occurred). The amount of the tax will be equal to the difference in taxes paid during the benefit period which were calculated on the capped taxable value and those which would have been due had the taxable value uncapped the year following the transfer.

Prospective purchasers of qualified agricultural property currently receiving this benefit, who plan on converting the property to another use following the transfer of ownership, should file form 3677 (The Notice of Intent to Rescind the Qualified Agricultural Property Exemption), and provide a copy to the prospective seller prior to the purchase. Filing of the form with the local tax collecting unit will effect a change in use and subject the property to the imposition of the recapture tax at the time the instrument transferring the property is recorded with the register of deeds. Payment of the recapture tax at that time would be the obligation of the seller.

In short, the amount of tax relief to be expected will be directly related to the duration of time the property remains in qualified agricultural use following its transfer. Because the recapture tax is limited to the most recent seven years in which the benefit was received, qualified agricultural property which remains in use as qualified agricultural property for more than seven years following a transfer will benefit from property tax savings as a result of Public Act 260. Short of that however, the act offers not much more than a property tax deferment. Ultimately, prospective purchasers or transferees will need to consider their long term land use plans when determining how much benefit is to be realized from this act.