Newaygo County

UNDERSTANDING PROPOSAL A IN A DECLINING MARKET 2012

Proposal A

On March 15, 1994, Michigan voters approved the constitutional amendment known as Proposal A.

Proposal A was designed to limit the growth in property taxes by the Consumer Price Index (CPI) until ownership in the property was transferred.

How It Works

Prior to Proposal A, property taxes were based upon State Equalized Value (SEV). With the implementation of Proposal A, property taxes are now based upon Taxable Value.

Each year, your local Assessor must calculate the SEV 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, which is called Tax Day.

Additionally, each property has a Capped Value. Capped Value is calculated by multiplying the prior year's Taxable Value, with adjustments for additions and losses, by the CPI as calculated by the State of Michigan. It cannot increase by more than 5%. For 2012, the CPI has been calculated at 2.7%.

Taxable Value (TV), which property taxes are based on, is defined as the lower of State Equalized Value or Capped Value.

Generally speaking, this means that unless the current year SEV is less than the previous year Taxable Value, multiplied by the CPI, the current year's Taxable Value will increase by the CPI.

SEV = 50% of True Cash Value

Capped Value =

(Prior TV-Losses) x (1+ CPI*) + Additions

* Percent of change in the rate of inflation or 5%, whichever is less, expressed as a multiplier

Taxable Value =

The lesser of State Equalized Value or Capped Value unless there is a transfer of ownership.

The Equalization Timetable

With significant evidence of declining market values, local assessing units are now using a 12-month sales study to determine values for the 2012 assessment cycle.

Use of a 12-month study allows 2012 assessments to somewhat more accurately reflect current market conditions, **however**, the **very** limited number of current sales also means that most areas in Newaygo County have limited data for the Assessor to calculate current assessments.

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, your local Assessor 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 had issued guidelines concerning foreclosure sales and, generally speaking, these guidelines precluded the Assessor from considering foreclosure sales when calculating values for assessment purposes. However, recent changes have occurred which will allow for the use of foreclosed sales that are considered **reasonable** and have been **verified**.

Even so, many distressed sales, such as sales involving mortgage foreclosure or sales involving transfers to or from relocation companies, are not able to be considered as typical sales in the valuation of property for assessment purposes nor are they often reliable indicators of value when making market comparisons for current Assessed Values or appeals.

Transfers of Ownership and Uncapping of Assessments

According to Proposal A, when a property (or interest in a property) is transferred, the following year's SEV becomes that year's Taxable Value. In other words, if you purchased a property in 2007, the Taxable Value for 2008 will be the same as the 2008 SEV. The Taxable Value will then be "capped" again in the second year following the transfer of ownership.

It is the responsibility of the buyer in a transfer to file a Property Transfer Affidavit with the Assessor's Office within 45 days of the transfer. Failure to file a Property Transfer Affidavit will result in a penalty of $5 per day for each day after the 45-day period with a maximum penalty of $200. Property Transfer Affidavit forms are available at the County of Newaygo Equalization Department or from your local Assessor.

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

Principal Residence Exemptions

If you own and occupy your home as your principal residence, it 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 the percentage exempt as "Principal Residence" is 0% on your assessment notice and you wish to claim an exemption for the current year, a Principal Residence Exemption Affidavit must be completed and filed with your local Assessor's Office prior to May 1.

Furthermore, 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 your local Assessor's Office.

Forms to claim a new exemption or to rescind a current exemption are available at the County of Newaygo Equalization Department or your local Assessor.

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So What Does it all Mean?

How can I expect my assessment to change in 2012?

Some may see their SEV reduced this year. As stated in the Equalization Timetable for 2012, a 12-month sales study may help.

Again, the problem being that there are such a limited amount of good sales for the Assessor to use for the Assessment roll that the use of a more current 12-month study is not possible. Furthermore, without sufficient sales to make proper calculations, you may find that your 2012 assessment may not go down as much as you think it should. Even with this, it does not help the taxpayer concerning the Taxable Value, which is what property taxes are based upon.

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 (2.7% for 2012).

Since Proposal A was approved in 1994, overall increases in SEV have generally been greater than the increase in Taxable Value capped at 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 2008, if there is still a gap **between SEV** and Taxable Value and the **2008 SEV** is greater than the Taxable Value in the previous year, the Taxable Value will increase to the limit of the CPI cap (2.3% for 2008)..

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

Example of Declining State Equalized Value and Increasing Taxable Value

This example illustrates a property, purchased in 1997 and uncapped in 1998. In 1998 the SEV becomes the new Taxable Value and then the property is subsequently recapped at the CPI. The SEV will increase or decrease based on market conditions. The Capped Value is adjusted by the CPI in the following year. Taxable Value is determined by using the SEV or Capped Value, whichever is less.

In this example, the property experiences a loss in the SEV from 2005 to 2011. Although the loss was due to market conditions, the Taxable Value continues to increase by the CPI during 2005-2009. In 2010 we experienced a negative CPI, which caused a Capped Value reduction. In 2011, the Taxable Value only increased to match the SEV, since it was lower than the Capped Value for 2011. The gap between the SEV and the TV has been eliminated for this sample parcel.

	SEV	Capped	Taxable	CPI
1997	$120,000	$106,910	$106,910	2.80%
1998	$130,500	$109,797	$130,500	2.70%
1999	$160,000	$132,588	$132,588	1.60%
2000	$180,000	$135,107	$135,107	1.90%
2001	$190,000	$139,431	$139,431	3.20%
2002	$200,000	$143,892	$143,892	3.20%
2003	$202,000	$146,051	$146,051	1.50%
2004	$205,500	$149,410	$149,410	2.30%
2005	$208,500	$152,846	$152,846	2.30%
2006	$204,000	$157,890	$157,890	3.30%
2007	$200,000	$163,732	$163,732	3.70%
2008	$198,500	$167,498	$167,498	2.30%
2009	$194,000	$174,868	$174,868	4.40%
2010	$180,000	$174,343	$174,343	-0.30%
2011	$175,000	$177,307	$175,000	1.70%