UNDERSTANDING
TAXABLE VALUE

On March 15, 1994, 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 property ownership is transferred. Property taxes were based upon the State Equalized Value (SEV) prior to Proposal A. With the implementation of Proposal A, property taxes are now based upon Taxable Value. Each year the Assessor must calculate the Assessed Value for every property based upon the time frame and guidelines set by the State Tax Commission. A property's taxable status is determined as of December 31, which is Tax Day. Additionally each property has a Capped Value which is the prior years Taxable Value (adjusted for physical additions and losses) multiplied by the CPI (or 5% whichever may be less), as calculated by the State of Michigan. For 2008, the CPI has been calculated to be 2.3%. Taxable Value, which property taxes are based on is defined as the lower of the SEV or Capped Value. This means that unless the current year SEV is less than the previous years Taxable Value multiplied by the CPI, the current years Taxable Value will increase by the CPI.

State Equalized Value (SEV) = 50% of True Cash Value

Capped Value = (Prior Taxable Value -losses) x (1+Consumer Price Index*) + additions.
***Percent of change in the rate of inflation or 5%, whichever is less, expressed as a multiplier.**
Taxable Value = the lessor of the SEV or Capped Value unless there has been a transfer of ownership.

State Tax Commission Guidelines establish that a local assessing officer must utilize a 24 month sales study to calculate assessments each year. For 2008 Assessments, the 24 month sales study begins April 1, 2005 and ends March 31, 2007. Sales that occur after March 31" are not considered in the sales study until the following year. With increasing market values this generally helps taxpayers since current sale prices are higher than those analyzed in the sales study and assessments will tend to lag behind the current market conditions. However in a declining market the adverse is true, it will take time for the assessment cycle to recognize the falling prices as well to the detriment of taxpayers under Proposal A.

Actual Sale Price is not True Cash Value
The law defines True Cash Value as the usual selling price of a property. MCL 211.27(5) Beginning December 31, 1994, the purchase price paid in a transfer of property is not the presumptive true cash value of the property transferred. For this reason, when analyzing sales for the purpose of determining assessment changes, the Assessor will review sales and exclude non-representative sales from the assessment analysis. Inherent in the definition of usual selling price is the assumption that the sale does not involve any element of distress from either party. For this reason, all distressed sales, i.e. sales involving mortgage foreclosures, sales to or from relocation companies and related party sales are disregarded since they are not considered as typical sales in the valuation of property for assessment purposes.

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. For example, if you purchased a property in 2007, the 2008 Taxable Value 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 important to note that the property does not uncap to the selling price but to the SEV in the year following the transfer of ownership.

So how can my assessment go up with the current market conditions?
Remember the timetable for the sales study as determined by the State Tax Commission is April 1, 2005 thru March 31, 2007. In determining assessment adjustments for a neighborhood, the sale prices of homes are compared to existing assessed values to determine the level of assessment. State law requires this level to be an average of 50% of values for the time period under review. Individual market areas in the City may appreciate or depreciate at different rates. What this means is that it is quite possible that even with current market conditions, assessment reviews of sales may indicate assessment levels in some areas of the City to be less than 50% and increases in assessments are necessary to bring them to 50%.

How can my Taxable Value go up when my SEV stays the same or decreases?
Remember the definition of Taxable Value is the lessor of SEV or last years Taxable Value (adjusted for additions/losses) times the CPI. Since Proposal A began in 1994 overall increases in SEV have generally been greater than the increases in the Taxable Value CPI adjustment. The longer a property has been owned and capped by the CPI, the greater the gap between SEV and Taxable Value. So even with no increase or a decrease in the SEV, if there is still a gap between the SEV and Taxable Value and the current year SEV is greater than the previous year Taxable Value, the Taxable Value will increase to the limit of the CPI cap. If however the current year SEV is lower than last years Taxable Value multiplied by the CPI, then the current Taxable Value will be the same as the current year SEV.

Anyone with additional questions should contact the Quincy Township Assessor at the following:

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