

PROPOSAL A - MICHIGAN

Property and Sales Taxes

Adopted March 15, 1994

Actual ballot language as approved by a majority of the voters of the State of Michigan:

A proposal to increase the state sales and use tax rates from 4% to 6%, limit annual increases in property tax assessments, exempt school operating millages from uniform taxation requirement and require 3/4 vote of Legislature to exceed statutorily established school operating millage rates. The proposed constitutional amendment would:

1. Limit annual assessment increase for each property parcel to 5% or inflation rate, whichever is less. When property is sold or transferred, adjust assessment to current value.
2. Increase the sale/use tax. Dedicate additional revenue to schools.
3. Exempt school operating millages from uniform taxation requirement.
4. Require 3/4 vote of Legislature to exceed school operating millage rates.
5. Activate laws raising additional school revenues through taxation including partial restoration of property tax.
6. Nullify alternative laws raising school revenues through taxation, including an increase income tax, personal exemption increase, and partial restoration of property taxes.

COMMONLY USED TERMS

- True Cash Value (TCV) = The usual selling price at the place where the property to which the term is applied is at the time of assessment, being the price that could be obtained for the property at private sale, and not at auction sale or at forced sale. MCL 211.27.
- Assessed Value (AV) = Assessor's estimate of 50% of True Cash Value as confirmed by the Board of Review
- State Equalized Value (SEV) = Assessed Value after adjustment by County and State Equalization.
- Taxable Value (TV) = The lower of Capped Value or State Equalized Value, used to calculate annual property taxes.
- Capped Value (CV) = Prior year Taxable Value - Losses x Inflation Rate Multiplier + Additions. Limits amount of annual increase in Taxable Value until there is a transfer of ownership.
- Inflation Rate Multiplier = Also known as the Consumer Price Index (CPI). Used to calculate annual increase in taxable value, limited to no more than 5% per year. This number is the same state-wide and has been set at 4.4% for 2009.

**UNDERSTANDING
MICHIGAN
PROPERTY TAXES**

PROPERTY TAX INCREASES IN A DECLINING REAL ESTATE MARKET



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HOW HAS MICHIGAN'S PROPOSAL A AFFECTED PROPERTY TAXES?

Before Proposal A, taxes were based on the State Equalized Value, which is calculated at 50% of the property's True Cash Value. This value fluctuates from year to year based on the current real estate market. Rapid increases in property values could sometimes result in unpredictable annual increases in property taxes.

Today, as a result of Proposal A, taxes are calculated using a capped Taxable Value. The cap on Taxable Value limits the annual increase to 5% or the rate of inflation, whichever is lower, for as long as the property is held by the same owner. In this way, property owners have been protected from unexpected tax increases.

For example, a property that has been owned by the same person since 1994 and was worth \$50,000 at that time may now be worth \$100,000. The total value of the property has increased by 100%. This means, without Proposal A, their taxes today would be based on a number that is double what it was in 1994. Under Proposal A, the total increase in taxable value based on the rate of inflation has been less than half of that at 49.2%.

In addition to establishing the cap on Taxable Value, Proposal A was part of a series of new legislation in 1993 and 1994 that also changed the way schools were funded, reduced the school operating property tax rate and made it possible for the legislature to adopt exemptions from school operating taxes such as the Homeowner's Principal Residence (Homestead) Exemption, the Qualified Agricultural Exemption and, most recently, the Michigan Business Tax Exemption.

EVERYONE SAYS PROPERTY VALUES ARE DOWN. WHY IS MY TAXABLE VALUE STILL GOING UP?

There is nothing in Proposal A to prevent an increase in Taxable Value during a declining market. The Taxable Value will continue to increase by the rate of inflation or 5%, whichever is less. As a result of the real estate market being strong for many years, in most cases the longer a property has been owned, the greater the gap between State Equalized Value and Taxable Value. However, if the Taxable Value resulting from the rate of inflation increase is higher than the State Equalized Value, the lower number will become the Taxable Value for that year. In this way, your Taxable Value will never be higher than 50% of your property's True Cash Value.

The good news is that if your Taxable Value is still going up, then your property investment has increased in value faster than the rate of inflation!

HOW CAN MY TAXES GO UP BY MORE THAN THE RATE OF INFLATION? CAN MY TAXES EVER GO DOWN?

Proposal A did not cap the amount of a property's total annual taxes. Property taxes are calculated by multiplying the Taxable Value by the total tax rate (also called millage rate) for any villages, townships or cities, counties, authorities and school districts in which the property is located. New taxes approved by Branch County voters could increase your total annual taxes by more than the rate of inflation. Other factors that could increase or decrease the total tax rate on a property include changes in exemption status, fluctuations in voter approved debt repayments, retirement of expired tax rates, statutory annual reductions to existing tax rates, etc...

Also, the Taxable Value may be increased in addition to the rate of inflation if there has been new construction, if property that was previously exempt no longer quali-

fies, or if property previously in existence but erroneously omitted from an assessment is added. By the same token, the Taxable Value will decrease if property previously included in the assessment has been destroyed or removed, portions of the property previously assessed now qualify for exemption, or there is a decrease in value as a result of environmental contamination as determined by the Department of Environmental Quality.

ARE MY TAXES LOWER THAN THEY WOULD HAVE BEEN WITHOUT PROPOSAL A?

Using a property located in the City of Coldwater that was worth \$50,000 in 1994, is now worth \$100,000, is still owned by the same person:

Without Proposal A the taxes on this property would be calculated at:

2009 State Equalized Value (\$50,000) x 1994 total tax rate (0.0564953, assuming 1993 school operating rate stayed the same) = \$2,824.76 annually.

With Proposal A (assuming annual increases to the Taxable Value for the rate of inflation):

2009 Taxable Value (\$37,294) x 2009 millage rate (0.0555849, assuming no changes from 2008) = \$2,072.98 annually.

Annual Savings from Proposal A: \$751.78

If the property qualified for 100% Homeowner's Principal Residence Exemption, there would be an additional tax reduction of \$671.29, for a **total annual reduction under Proposal A of \$1,423.07!**

The tax rate in the City of Coldwater prior to Proposal A was \$56.49 per thousand of State Equalized Value. The tax rate now is \$55.58 per thousand of Taxable Value (\$37.58 with 100% Homeowner's Principal Residence Exemption). So, even if the Taxable Value uncapped to the State Equalized Value, at **\$50,000, the reduced tax rate under Proposal A translates to an annual reduction of between \$45 and \$945!**