Michigan's Property Tax System: You Saved Big $$

Some say Michigan's property tax system is confusing. This may be because Michigan voters approved a law called "Proposal A." Proposal A changed the property tax calculation formula. This article tries to explain the calculations that affect you, your property and the property taxes you pay.

Protecting people from being taxed out of their homes was just what the authors of Proposal A had in mind when they presented it to voters. But now, the disparities in tax payments caused by the law have become clearer.

Until 1994, property taxes were based on a property's assessed value or an amount equal to 50% of the property's market value. This meant that property taxes went up or down in close relation to an increase or decrease in property value.

In 1994, Proposal A was enacted by a statewide vote. This changed the formula for property tax calculation. With the passage of Proposal A, the property tax was stabilized. In fact, some of the tax burden was shifted from property to sales tax, which was raised from 4% to 6%.

SEV vs. Taxable Value

Prior to 1994, property taxes were calculated on just your State Equalized Value.
After proposal A went into law, property taxes were calculated on Taxable Value. But, this did not eliminate a property's State Equalized Value.

State Equalized Value (SEV) was an assessment that set the value at which your property was taxed. SEV is equal to one half of market value. Example: If your home is worth $100,000, your SEV is $50,000. Prior to 1994, your taxes to be paid were based on just this number. The market value could decrease and increase from year to year. (In 1994, property taxes were generally going up and up.) You could appeal your property assessment. Fed up with this annual increase in property taxes, Proposal A was put before voters. It passed. After 1994, the SEV number stays with your property, but your taxes to be paid are no longer based on this number.

What did Proposal A Do?

Proposal A capped everyone's property tax at the 1994 rate <u>and</u> said that increases could only go up by the rate of inflation or 5% whichever is less. This number, the increase in your property value for tax purposes, would be called your Taxable Value.

Proposal A also said:

- This new Taxable Value number could be equal to or less than the SEV number – never more than the SEV.
- This new Taxable Value number could not go down unless the SEV dropped below your Taxable Value.
- New construction such as an addition could raise the SEV and the Taxable Value.

The Proposal A Catch 22

Under Proposal A, property values could rise – as they did in the 1990's – without a corresponding increase in property taxes.

However, the reverse is true as well; property values could fall – as they are doing somewhat now – without a corresponding decrease in property taxes.

This is very likely since taxable values have not risen more than 3.2% in any years since 1994. In most markets in Michigan, property values have risen much faster, since 1994, than 3.2% each year. Thus, the gap between SEV assessed value and taxable value.

For instance, if you've owned your home for several years, chances are there is a significant gap between the SEV (assessed value) and the taxable value, which increased more slowly. Even thought property values have decreased in the last couple of years, the SEV (assessed value) is probably still higher than the taxable value upon which your property taxes are calculated. This means that property taxes probably won't decrease. In fact, you may still receive an increase in your property taxes because of the increase in the rate of inflation.

You are still paying taxes on the taxable value – a lower rate than the SEV (assessed value) but it sure is confusing. Proposal A has saved you money for years, but the gap is wider and your property taxes won't fall until the SEV (assessed value) falls below the taxable value.

Hidden Consequence: Assessment Shock

The removal of the cap when a home is sold is a hidden consequence of Proposal A. This causes 'assessment shock.' Assessment shock is a factor that municipal assessors say is little understood by many home buyers and often not well explained by real-estate agents.

All new home buyers should be told the cap on the home they are buying will be removed and the home will be taxed at a higher rate. Good agents will tell their client what will happen with their property taxes before they bid on a home or buy a new home.

When a Home is Sold: Tax Cap Lifts at Sale

When the home is sold, the Proposal A cap is removed, and the taxable assessment rises to the actual SEV for the new home owner. That's the new base for assessment increases, which are limited to 5 percent or inflation until the home is sold again.

A home buyer's assessment increase can be large if a home hasn't been sold since 1994, when Proposal A took effect. The home would have several years of artificially capped assessments for tax purposes, while its actual market value may have risen substantially rose substantially.

Since 1994 and Proposal A

Since Proposal A, the rate of inflation has not increased more than 3.2 percent in any year. But, market values of homes have increased dramatically in some real-estate markets.

An Example of Property Taxes Paid With and Without Proposal A

Comparing the same property WITH and WITHOUT Proposal A finds taxpayers saved a large amount of taxes WITH Proposal A. In the example, the cumulative savings was $ 26,675.42!

See the example on the next page.

Property Tax Example WITHOUT Proposal A

Year	Market Value of Your Home	SEV State Equalized Value	Property Tax Total Mills	Your Total Taxes Paid
1993	150,000	75,000	52.4444	3,933.33
1994	161,250	80,625	52.4444	4,228.33
1995	173,344	86,672	52.4444	4,545.45
1996	186,345	93,172	52.4444	4,886.36
1997	200,320	100,160	52.4444	5,252.84
1998	215,344	107,672	52.4444	5,646.80
1999	231,495	115,748	52.4444	6,070.31
2000	248,857	124,429	52.4444	6,525.59
2001	267,522	133,761	52.4444	7,015.01
2002	287,586	143,793	52.4444	7,541.13
2003	309,155	154,577	52.4444	8,106.72
2004	332,341	166,171	52.4444	8,714.72
2005	357,267	178,633	52.4444	9,368.33
2006	339,404	169,702	52.4444	8,899.91
2007	322,433	161,217	52.4444	8,454.91
2008	306,312	153,156	52.4444	8,032.17

Total Taxes Paid Between 1993 and 2008: $107,221.92

Property Tax Example WITH Proposal A

Year	Market Value of Your Home	Taxable Value Under Prop A	Property Tax Total Mills	Your Total Taxes Paid
1993	150,000	75,000	52.4444	3,933.33
1994	157,500	77,400	52.4444	4,059.20
1995	165,375	79,877	52.4444	4,189.09
1996	173,644	82,433	52.4444	4,323.14
1997	182,326	85,071	52.4444	4,461.48
1998	191,442	87,793	52.4444	4,604.25
1999	201,014	90,602	52.4444	4,751.59
2000	211,065	93,502	52.4444	4,903.64
2001	221,618	96,494	52.4444	5,060.55
2002	232,699	99,581	52.4444	5,222.49
2003	244,334	102,768	52.4444	5,389.61
2004	256,551	106,057	52.4444	5,562.08
2005	269,378	109,450	52.4444	5,740.06
2006	255,910	112,953	52.4444	5,923.75
2007	243,114	116,567	52.4444	6,113.31
2008	230,958	120,298	52.4444	6,308.93

Total Taxes Paid Between 1993 and 2008: $ 80,546.49