Garfield
Charter Township

SERVING THE CITIZENS OF NORTHERN MICHIGAN

Buying a New Home?

Property Information That You Should Know

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So, you've decided to purchase a home …

Without a doubt, the most common question of the assessor's office since the passage of Proposal A of 1994 is "What will the property taxes be on a property in the year following the purchase?" In most states, this is a question easily answered, but in Michigan this is a question that is seldom answered before the beginning of the new tax year.

In 1994, the voters of Michigan passed a referendum commonly known as Proposal A. Proposal A originated as a reformation of K-12 education funding but is becoming more renown for the provision in the enacted law that allows for the "uncapping" of a property's taxable value in the year following a transfer. Hopefully, the following information will explain this particular provision and its impact on the new property owner.

Background Information

Every property in the State of Michigan has three values calculated for it. The first is the *Assessed Value*, which is the value calculated by the assessor and then through the equalization process transforms into what is commonly referred to as the SEV (*State Equalized Value*); the second is the *Capped Value* and the third is the *Taxable Value*. The two values that will be focused on here are the assessed and taxable values.

Assessed Value

The **assessed** is a value equal to 50% of the property's true cash value as determined on December 31st of the previous tax year. An example of this is if a property's true cash value calculation is $70,000 based on its December 31st 2020 status, the assessed value for 2021 would be $35,000 (50% of true cash value). That calculation is easy because it is done the same way for every parcel and there is no "cap in value" to deal with for the assessed value.

Taxable Value

The **taxable** value calculation has variables that do not make it the same for all properties. In cases where a property has not experienced a transfer of ownership in the previous year, the taxable value will be determined by:

1. taking the previous year's taxable value;
2. subtracting any property loss that may have occurred (demolition);
3. multiplying the result of 1-2 (above) by the *Consumer Price Index* (CPI) as established annually by the Michigan State Tax Commission; and finally,
4. adding any new value (new construction) that may have occurred in the previous year.

That sounds complicated and in some instances can be, but the majority of properties will calculate using the simple formula that does not have any new value or less of value.

The following is an example of a typical annual taxable value calculation:

$ 30,000 = 2020 Taxable Value
No property loss
No new construction
x 1.4% (CPI)
$ 30,420 = 2021 Taxable Value

This capped taxable value formula is a guaranteed protection the voters of Michigan gave themselves to ensure that their taxable values from one year to the next could not increase by more than the CPI, or 5%, whichever was less, as long as they were the owners of the property (and nothing had changed in the physical status of their property such as new construction). The taxpayers in Michigan need look no further than across the border to their neighbors in Wisconsin, whose tax system does not include this "capped" formula protection, to realize how fortunate they truly are.

How Michigan compares …

In Wisconsin, if the true cash value of a property is $70,000, the owner pays the taxes on $70,000. If the value of the property increases by 10% (in this example, $7,000) then the next year the owner begins paying taxes on a property worth $77,000. That same value scenario for a property located in Michigan would have resulted in an increase that is capped by the previously mentioned formula for the taxable value (1.9% increase for 2020) versus the 10% increase under Wisconsin tax laws.

Be an Informed Buyer

Knowing these basic principles concerning the property tax formulas will help you understand what happens to the property's taxable value after a transfer of ownership. The "capped taxable value" formula that was demonstrated earlier relates to properties that have not experienced a transfer of ownership in the previous year. The "uncapped taxable value" is the term used to describe the taxable value calculation in the year following a transfer of ownership. This calculation is actually quite simple.

<u>In the year following a transfer, the uncapped taxable value will be the same value calculated as the SEV.</u> In other words, the taxable value will be equal to 50% of true cash value. An illustration of this using the values from the previous example would show that if the true cash value of the property was determined to be $70,000 on December 31, 2020, the 2021 state equalized AND taxable values would be $35,000 (50% of the true cash value).

It is easy to see that the difference the transfer of ownership has made for the taxable value is the difference between what would have been the capped value of $30,420 and the now uncapped value of $35,000. Fortunately for Michigan taxpayers, it is only in the first year following the transfer that the calculation is done in this manner. In the 2^{nd} year following the transfer of ownership, the property will once again enjoy the protection of the "cap" until the property experiences its next transfer.

One of the frustrations for potential buyers trying to determine what the uncapped taxable value will be on the property they buy is the assessing cycle that most assessor work under does not allow for a calculation of an exact assessed and taxable value for the following tax year until all sales studies have been completed and analyzed by both the local assessor and the Equalization Department. The results of those studies are typically not integrated into the value calculations until late in the year. So, while most property owners can estimate their next year's taxable value by multiplying the new CPI by the previous year's taxable value, property owners whose properties experienced a transfer of ownership must wait until the assessor has determined the assessed value to know for sure what the taxable value will be.