



# UNDERSTANDING “PROPOSAL A”

## A Guide To Your Property Values



### 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, the Assessing Office 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 and cannot increase by more than 5%. **For 2019, the CPI has been calculated at 1.024%.**

**(\*Local Units CANNOT develop, adopt or use an inflation rate multiplier other than 1.024% in 2019.**

Taxable Value (TV), which property taxes are based on, is defined as the **Lesser** of State Equalized Value or Capped Value adjusted for physical change times the C.P.I.

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

**SEV = 50% of True Cash Value**

**Capped Value =**  
 $(\text{Prior TV} - \text{Losses}) \times (1 + \text{CPI}^*) + \text{Additions}$

\* 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

Currently the Lake County Equalization Department is using a Twenty-four (24) month sales study to determine values for the 2018 assessment cycle.

**For 2019 assessments, the 24 month sales study begins April 1, 2016 and ends March 31, 2018.**

Use of a Twenty-four (24) month study allows 2018 assessments to more accurately reflect current market conditions, however, **any sale that occurs after March 31, 2018 will not be used for assessment purposes until the 2020 assessment roll.** It is important to remember this when reviewing your 2019 assessment. Any appeal to the Board of Review should use data from the time period of study and not use sales occurring after the time period of study.

### 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, the Assessing Office will review all sales but exclude non-representative sales from the assessment analysis.

### FORECLOSURE SALES

The sale of foreclosed properties may still be having a slight impact on the real estate market in general for some municipalities. Recent changes in State Guidelines have occurred which allow for the use of foreclosed sales in our analysis **IF** certain conditions are met.

If the foreclosure sale has been analyzed, properly verified and meets the conditions of a fair and representative market transaction, it may be included in the State Tax Commission (STC) One-Year sales study. However at this time the STC is requiring the use of a 24 month study to be used in all units of government. Not all foreclosures are considered as typical sales in the valuation of property for assessment purposes nor are they 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 2018 the Taxable Value for 2019 will be the same as the 2019 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 Assessors Office within 45 days of the transfer. Failure to file a Property Transfer Affidavit will result in a penalty. Property Transfer Affidavit forms are available at the local Assessor's Office or under Local Government /State Tax Commission/Forms at the following web site link:

[www.michigan.gov/treasury/](http://www.michigan.gov/treasury/)

**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 the Assessors Office prior to June 1 or November 1st.

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 the Assessor's Office.

Forms to claim a new exemption or to rescind a current exemption are available at the Local Assessors Office during normal business hours or under Local Government /State Tax Commission/Forms at the following web site link:

[www.michigan.gov/treasury/](http://www.michigan.gov/treasury/)

## SO WHAT DOES IT ALL MEAN? HOW ARE PROPERTY VALUES DETERMINED?

As stated in the Equalization Timetable, for 2019, the time period of the sales study for assessment review is April 1, 2016 through March 31, 2018.

The Michigan constitution requires that property be uniformly assessed and not exceed 50% of the usual selling price, often referred to as True Cash Value. Each tax year, the local assessor determines the Assessed Value (AV) of each parcel of real property based on the condition of the property as of December 31 (Tax Day) of the previous year.

Market sale transactions for real property are used by Michigan assessors to compare Assessed Values (AV) with the actual sale prices (market values) for those same properties. Market Value can be defined as "the most probable price, as of a specific date, where both buyer and seller are knowledgeable and neither party is under duress".

The average ratio between the AV and the sale price should be 50%. Since the market for real estate is constantly changing the average ratio actually found will "usually not" be 50%. Subsequently Local Assessors are required to adjust properties on an annual basis to more accurately reflect Market Value.

### WHAT ARE PROPERTY TAXES BASED ON?

As previously stated, on March 15, 1994 Michigan voters approved the constitutional amendment know as Proposal "A".

Prior to Proposal "A" property tax calculations were based on State Equalized Value (SEV).

Proposal "A" established "Taxable Value" (TV) as the basis for the calculation of property taxes.

Increases in the Taxable Value (TV) are limited to the percent of change in the rate of inflation OR five percent (5%), whichever is less, as long as there were no losses or additions to the property.

The limit on TV DOES NOT apply to a property in the year following a transfer of ownership (sale)

## NOTICE OF ASSESSMENT

Each year, prior to the March meetings of the local boards of review, informational notices are mailed. The "Notice of Assessment , Taxable Valuation, and Property Classification" also includes State Equalized Value, the percent of exemption as a Principal Residence, Michigan Business Tax, Qualified Agricultural or Qualified Forest, and if there was or was not a Transfer of Ownership.

### CALCULATING INFLATION RATE MULTIPLIER

Based on this statutory requirement, the calculation for 2019 is as follows:

1. The 12 monthly values for April 2016 through March 2017 are averaged.
2. The 12 monthly values for April 2017 through March 2018 are averaged.
3. The ratio is calculated by dividing the average of column 2 by the average of column 1.

Oct-16	241.729	Oct-17	246.663
Nov-16	241.353	Nov-17	246.669
Dec-16	241.432	Dec-17	246.524
Jan-17	242.839	Jan-18	247.867
Feb-17	243.603	Feb-18	248.991
Mar-17	243.801	Mar-18	249.554
Apr-17	244.524	Apr-18	250.546
May-17	244.733	May-18	251.588
Jun-17	244.955	Jun-18	251.989
Jul-17	244.786	Jul-18	252.006
Aug-17	245.519	Aug-18	252.146
Sep-17	246.819	Sep-18	252.439
<b>Average</b>	<b>243.841</b>	<b>Average</b>	<b>249.749</b>

**Ratio 1.024**  
**% Change 2.4%**

(\*The specific numbers from the US Department of Labor, Bureau of Labor Stat