

UNDERSTANDING PROPOSAL A

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Proposal A

On March 15, 1994, Michigan voters approved Proposal A, an amendment to the Constitution.

Proposal A was designed to limit the growth in property taxes to the Consumer Price Index (CPI) until ownership in the property transferred.

How it Works

Before Proposal A, property taxes were based upon State Equalized Value (SEV), which is basically half of market value. With the implementation of Proposal A, property taxes are now based upon Taxable Value.

The Assessor, following Proposal A, must calculate three values for each property: State Equalized Value, Capped Value, and Taxable Value. Each year, the Assessor 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 on December 31, Tax Day.

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 is limited to a maximum of 5% per year.

Taxable Value (TV) is the lower of State Equalized Value or Capped Value and is what property taxes are based on.

Generally speaking, this means that unless the current year SEV is less than the prior value multiplied by the CPI, the current year's Taxable Value will be increased by the CPI.

SEV = 50% of True Cash Value

Capped Value =

(Prior TV-Losses) x (14-04*) + 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 was a transfer of ownership during the previous year

Sale Price is not presumed to be True Cash Value

The law defines True Cash Value as a property's usual selling price. The Legislature and the Courts have clearly stated that the actual selling price of a Property is not the controlling factor in the True Cash Value or State Equalized Value as calculated by the Assessor. When analyzing the sales to determine assessment changes, the Assessor will review all sales but exclude non-representative sales from the assessment analysts.

Foreclosure Sales

Basic to the definition of usual selling price is the assumption that the sale does not involve any element of distress from either party.

The State Tax Commission has issued guidelines concerning foreclosure sales and generally speaking, these guidelines prevent the Assessor from considering foreclosure sales when calculating values for assessment purposes.

Distressed sales, such as sales involving mortgage foreclosure or sales involving transfers to or from relocation companies are not considered as "usual" 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.

They may be used *if* specific criteria are met and the Assessor demonstrates that they reflect the current market.

Transfers of Ownership and Uncapping of Assessments

Under 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 2017, the Taxable Value for 2018 would be the same as the 2018 SEV. The Taxable Value will then be "capped" again in the second year following the transfer of ownership.

It is the buyer's responsibility in a transfer to file a Property Transfer Affidavit with the Assessor's office within 45 days of the transfer. Failure to file a Property Transfer Affidavit may result in a \$5 per day penalty for each day after the 45 day period with a maximum of \$200. Property Transfer Affidavit forms are available at the Assessor's Office.

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 Exemption

If you own and occupy your home as your principal residence, it may be exempt from a portion of school operating taxes. You may check your percentage of principal residence exemption on your "Notice of Assessment".

If the percentage exempt as a "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 Assessor's Office prior to May 1 or November 1.

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 in the Assessor's Office during normal business hours listed on the Assessor's website.

The laws concerning this process are set by the State. If you are dissatisfied with the process, you may wish to share your concerns with your state senator and representative. Most reforms require a change in the law.