

UNDERSTANDING PROPERTY ASSESSMENTS AND TAXABLE VALUE

The following is a brief explanation of how property assessments and taxable values are calculated.

Michigan law requires the Assessor to place an assessed value on each parcel of property in each City and Township as of December 31st of each year. As a result, for 2011, some residential properties have seen assessed values decrease, while others have been increased to better reflect the current market value of their property. The assessor's office has spent a great deal of time reviewing sales of property that have occurred from October 1, 2009 thru September 30, 2010 to estimate property values as of December 31, 2010 for the 2011 assessments.

Assessed value is 50% of a property's estimated market value. Taxable value is based on last years taxable value multiplied by the Inflation Rate Multiplier. This multiplier is calculated, based on State law and is derived from the consumer price index. The multiplier for the entire State of Michigan for 2011 is 1.7%, and is applied to every property in the State. In addition, the Taxable value may increase or decrease based on additions or deletions to the property. These may be a new garage added or an old garage removed. Also a transfer of ownership of the property will affect taxable value. In the year following the transfer, the taxable value will uncap to equal the Assessed value.

	Assessed Value	Taxable Value	
2010	\$ 50,000	\$ 32,845	In May of 2010 the property sold for \$120,000. The taxable value is uncapped for 2011 to equal assessed value.
2011	51,200	51,200	

In 1994, the people of the State of Michigan elected to limit the yearly increases in the property tax. Known as Proposal A, it changed the tax levy from the assessed value to a new taxable value, which limited the increases to 5% or the rate of inflation.

Since 1994, the vast majority of assessments have increased greater than the rate of inflation. This is due to property values increasing greater than the rate of inflation based on sales. This created a gap between the Assessed value and Taxable values.

Based on the effects of Proposal A, even though property values may decrease, the taxable value will increase until this gap is narrowed to the point of the taxable value equaling the assessed value.

	Assessed Value	Taxable Value
2010	\$ 50,000	\$ 32,845
2011	50,000	33,403

In this example, the assessed value did not change. The Taxable value increased by 1.7%, which is the inflation rate for 2011.

	Assessed Value	Taxable Value
2010	\$ 50,000	\$ 49,725
2011	50,000	50,000

In this example, again the assessed value did not change. The Taxable value increased by the rate of inflation up to an amount equal to the assessed value. If we multiply the 2010 taxable value by 1.7% we get \$50,570. Proposal A mandates that taxable value cannot exceed assessed value.

	Assessed Value	Taxable Value
2010	\$ 50,000	\$ 49,025
2011	50,500	49,858

In this example, the assessed value increased by \$ 500. The Taxable value increased by 1.7% which is the inflation rate for 2011. Note that the taxable value increase (\$ 833) was greater than the increase in assessed value (\$ 500).

	Assessed Value	Taxable Value
2010	\$ 50,000	\$ 32,845
2011	40,000	33,403

In this example, the assessed value decreased, but the taxable value must increase because it does not equal the assessed value. Even in a declining real estate market, taxable value will increase on an annual basis until it is equal to the assessed value.

	Assessed Value	Taxable Value
2010	\$ 50,000	\$ 49,025
2011	45,000	45,000

In this example, the assessed value decreased. Applying the inflation rate of 1.7% to the taxable value we get \$49,858. Because Proposal A states that the taxable value cannot exceed the assessed value, the taxable value is lowered to the same amount as the assessed value.