

BASIC EXPLANATION OF PROPERTY ASSESSMENTS AND TAXES

Proposal A, passed by the voters in March of 1994, drastically changed the property assessment and taxation system. The purpose of Proposal A was to give homeowners some relief against increased taxes due to the rapidly rising housing market. Prior to Proposal A, taxes were calculated on Assessed Value while since Proposal A, taxes are calculated on Taxable Value.

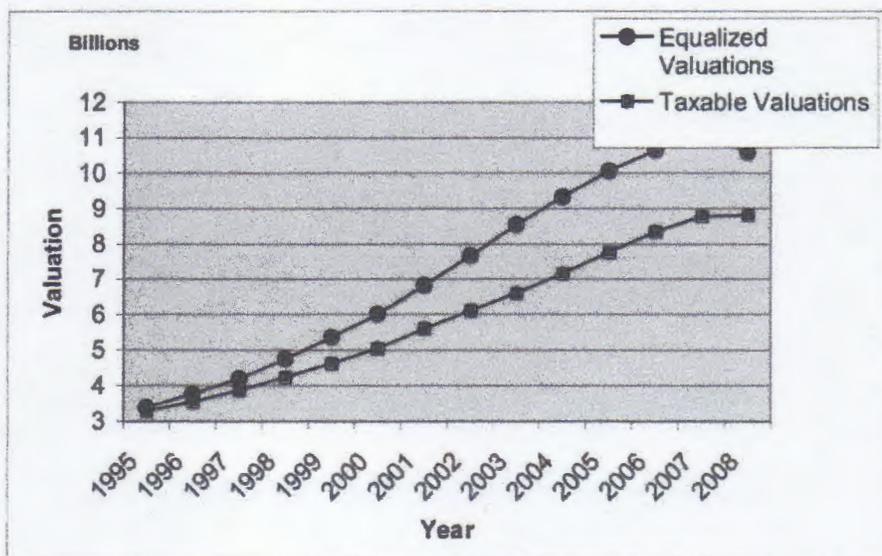
Before beginning an explanation of Proposal A's impact, we need to define some commonly used assessing terms.

- **Assessed Value (AV):** AV is 50% of the usual selling price (market value) or true cash value of your property.
- **State Equalized Value (SEV):** The SEV is the assessed value as finalized by the County and State Equalization Process. In most cases, the SEV and AV will be the same.
- **Consumer Price Index (CPI):** The CPI is determined each year by the State of Michigan. Every municipality in the State is required to use the CPI to calculate the capped value. The CPI is not subject to appeal.
- **Capped Value:** The capped value is a calculated value which takes last year's taxable value minus any physical losses (i.e.: demolition), increased by the CPI or 5%, whichever is less, plus any physical additions (i.e.: new construction)
- **Taxable Value (TV):** The TV is the lesser of the SEV or the Capped Value. This is what your taxes are based on. In most circumstances, the TV is not subject to appeal.

Proposal A states that starting in 1995, the capped value shall be increased by the amount of the CPI or 5%, whichever is less. However, as established in the old law, the SEV is to be 50% of the usual market value. Consequently, the capped value and SEV could be totally different. This capping process will continue annually until the property is sold and/or ownership is transferred. A property is uncapped in the year following a transfer of ownership. This means that the TV for the year following a transfer is required to be the same as the assessed value for that year. The year after the property is uncapped, increases to the TV will once again be limited by the CPI or 5%, whichever is less, unless there are physical changes made to the property.

The reality of Proposal A is that property taxes will not decrease until the AV is set lower than the TV or the millage rates are reduced. Even in a declining market, a TV will increase on an annual basis until it is equal to the AV.

This bar graph shows the total assessed and taxable values for Livingston County for 1995 through 2008.



(OVER)