Guide to Property Taxes, Proposal A, & Headlee Amendment

BENZIE COUNTY

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Overview

Proposal A

Proposal A, also known as the Michigan Tax Amendment, was passed March of 1994. The primary goal of Proposal A was to reform school finance, but it included two provisions that altered local property taxation. The first was a limitation on the growth of individual properties to the lesser of inflation or 5%. The second was the establishment of "uncapping" property values. Uncapping refers to the process of increasing a property's taxable value to the State Equalized Value at the time of a change of ownership.

Headlee Amendment

The Headlee Amendment to the Michigan Constitution was passed in 1978 requiring that a millage rate be reduced or rolled back proportionally for that year. This amendment requires local governments to lower property taxes if their aggregate property tax revenue goes up as the result of property values (and tax assessments) rising faster than inflation unless voters approve the previous rate in a "Headlee rollback" election.

Since the passing of the Headlee Amendment, units of government are required to annually calculate a Headlee rollback factor. Headlee suppresses total taxing authority within a jurisdiction. Proposal A limits **taxable value** on individual properties.

Taxable Value

Taxable value is the lesser of state equalized value or capped value unless the property was sold the prior year. Taxable value the value on which property taxes are calculated in the State of Michigan.

Notice of Assessment

Taxpayers are notified each year before local boards of review meet in March. The "Notice of Assessment, Taxable Valuation and Property Classification" includes state equalized value; percent of exemption as a principal residence, Michigan Business Tax, or qualified agricultural property; and if the property was sold.

True Cash Value

True cash value is the usual selling price of a property. The Legislature and Courts have very clearly stated that the actual selling price of a property is not a controlling factor in the True Cash Value or SEV 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.

Calculating inflation rate

The 2022 inflation rate multiplier (IRM) is 1.033. The Calculation for 2022 from the United States Department of Labor can be found at the below link.

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Understanding Terminology

What determines my property tax?

Before Proposal A, property taxes were based on state equalized value (SEV) or assessed value (AV). Proposal A established taxable value (TV) as the way to calculate property taxes. Taxable value increases are limited to the change in the inflation rate or 5%, whichever is less.

What is assessed value?

Michigan Constitution requires that property be uniformly assessed and not exceed 50% of the usual selling price. Each tax year the local assessor determines the assessed value of each parcel of real property based on its condition as of Dec. 31, 9 (Tax Day) of the previous year.

How Are Property Taxes Calculated?

Property tax= taxable value/ 1,000 x each millage rate

How are Property Values Determined?

The sale of real property is used by Michigan assessors to compare assessed values with the actual sale prices or market values for those properties. Market value is the most probable price where both buyer and seller are knowledgeable, and neither is under duress. The average ratio between assessed value and the sale price should be 50%. Since real estate prices change constantly, the average ratio is usually not exactly 50%. Local assessors are required to reestablish the ratio annually.

What is a Principal Residence Exemption (PRE)?

If you own and occupy your home as your principal residence, it may be exempt from a portion, or all local school operating taxes. On your Notice of Assessment, review your percentage of principal residence exemption to claim an exemption for the current year, you must own and occupy your home and file a pre-affidavit with your city or township by June 1 for the immediately succeeding summer tax levy and all subsequent tax levies or by Nov 1 for the immediately succeeding winter tax levy and all subsequent tax levies.

Can a Board of Review set the SEV or Assessed Value at the sales price of the property?

No, this is illegal in Michigan. An individual sales price IS NOT the same as true cash value of the property for many reasons including:

- An uninformed buyer
- Insufficient marketing time
- Related parties

The price paid in a property transfer is not the presumptive true cash value of the property transferred.

What happens when you purchase a property?

When a property or interest in a property is transferred, the following years state equalized value becomes that year's taxable value. If you purchase property, your taxable value for the following year will be the same as the state equalized value. The taxable value will then be capped for the second year following the sale.

MCL Section 211.27a(7)(u): Beginning Dec 31, 2014, it is not a transfer of residential real property if the transferee is the transferor's or the transferor's spouses' mother, father, brother, sister, son, daughter, adopted son, adopted daughter, grandson, or granddaughter and the residential real property is not used for any commercial purpose following the conveyance.

What does Capped Value mean?

Capped value represents any inflation change from the previous year. CV is established when the taxable value of the prior year, is multiplied by the inflation rate multiplier (IRM). The multiplier cannot be greater than 1.05 (1+5%). CV doesn't apply if you purchased your home last year.

CV= (Prior taxable value-losses) x (IRM) + Additions

Examples

The following scenarios may reflect your situation. A 1.033 multiplier has been used for the examples.

You Purchased a New Home

Example A

Last year, you purchased a new home valued at $200,000 with Assessed Value and State Equalized Value both at $100,000, and a Taxable Value of $80,000.

Sales in the neighborhood show the true cash value of the property has increased to $210,000 for the year.

Current Year:

Assessed Value is (1/2 of $210,000……… $105,000

SEV (tentative) …………………………………… $105,000

Value is uncapped the year following ownership transfer of a property. The Taxable Value will be the same as the State Equalized Value.

Example B-Added a Family Room to Your Home

Last year, your home valued at $200,000 had a $100,000 SEV and a Taxable Value of $80,000. You added a family room addition valued at $40,000.

Sales in the neighborhood show the true cash value of your property with the addition has increased to $240,000.

Current Year:

Assessed Value (1/2 of $240,000) ………………$120,000

SEV (tentative) ………………………………………… $120,000

Capped Value:

(($80,000 x 1.033) +50% of 40,000) …………$102,640

Taxable Value, the lesser of SEV or CV……… $102,640

You Made No Changes to Your Property

Example C-Increased SEV/TV Increase

Last year, your home was valued at $200,000 had a $100,000 State Equalized Value, and a Taxable Value of $80,000.

Sales in the neighborhood show the true cash value of the property has increased to $220,000 for the current year.

Current Year:

Assessed Value is (1/2 of $220,000…………… $110,000

SEV (tentative) ………………………………………… $110,000

Capped Value ($80,000x1.033) ………………… $82,640

Taxable Value, the lesser of SEV or CV………… $82,640

Example D-Decreased SEV/TV Increase

Last year, your home valued at $200,000 had a $100,000 SEV and a Taxable Value of $80,000.

Sales in the neighborhood show the true cash value of your property has decreased to $180,000 for the current yar.

Current Year:

Assessed Value (1/2 of $180,000) …………… $90,000

SEV (tentative) ………………………………………. $90,000

Capped Value: ($80,000 x 1.033) …………… $82,640

Taxable Value, the lesser of SEV or CV……… $82,640

What sales information is used in determining assessments?

A 23-month sales study is performed to determine property assessment. The time frame is determined by the State Tax Commission.

What is State Equalized Value (SEV)?

The State Equalized Value (SEV) is the assessed value as adjusted following county and state equalization. The County Board of Commissioners and State Tax Commission review local assessment jurisdictions and adjust them, so they do not exceed 50% of true cash value.

March Board of Review & Poverty Exemptions

Every taxpayer has the right to appeal their assessment. If you believe the assessed value is more than half the value of your property or if you believe you qualify for a poverty exemption, you may appeal the assessed or taxable values at the Board of Review in March. The Board of Review is comprised of three members and one alternate, which are knowledgeable residents of the community. The applicants who bring forth the appeal must show proof by including information such as photographs, appraisals, and listings of comparable sales. You can obtain information about the specific meeting dates and schedule an appearance with the board by contacting your local assessing office.

MCL 211.7u: *Provides for a property tax exemption, in whole or part, for the principal residence of persons who, by reason of poverty, are unable to contribute to the public charges. In order to receive a poverty exemption, a taxpayer must annually file a completed application form, and all required additional documentation, with the supervisor, assessor, or the Board of Review where the property is located.*

Disabled Veterans

Exemption

MCL Section 211.7b: MCL Section 211.7b: Real Property used and owned as a homestead by a disabled veteran who was discharged from the armed forces of the United States under honorable conditions is exempt from the collection of taxes under this act. In order to receive an exemption, the veteran must file an Affidavit, Form 5107 with their local municipality or with the Assessor Officer.

Below are the eligible requirements that the applicant must meet:

- The disabled veteran has been determined by the United States Department of Veterans Affairs to be permanently and totally disabled as a result of military service and entitled to veteran's benefits at the 100% rate
- The disabled veteran is receiving or has received financial assistance due to disability for specially adapted housing
- The veteran has been rated by the United States Department of Veterans Affairs as individually unemployable

If a disabled veteran who is otherwise eligible for the exemption under this section dies, either before or after the exemption is granted, the exemption shall remain available to or shall continue for his or her unmarried surviving spouse. The surviving spouse shall comply with the requirements listed above and shall indicate on the affidavit that he or she is the surviving spouse of a disabled veteran entitled to the exemption. The exemption shall continue if the surviving spouse remains unmarried.

Millage Renewal and Restoration

The millage rate was approved but the actual rate levied fluctuates due to the State of Michigan's Proposal A that limits property tax increases to the rate of inflation rate. Benzie County voters approved a 5.29 millage in 1982, the amount the county collects has been reduced over the years because of restrictions based on Proposal A. If voters approve to restore the millage to the original millage, it will gradually decrease again as the Proposal A restrictions are applied.

Headlee Rollback

The term became part Headlee Amendment to Michigan's Constitution in 1978. Headlee requires local units of government to reduce its millage when annual growth on existing property is greater than the rate of inflation. The local unit's millage rate gets "rolled back" so that the resulting growth in property tax revenue, communitywide, is no more than the rate of inflation. A "Headlee override" is a vote by the electors to return the millage to the amount originally authorized via charter, state statute, or a vote of the people, and is necessary to counteract the effects of the "Headlee Rollback."

Municipalities could roll-up their millage rates to keep up with inflation. The Headlee Roll-up is no longer an option. When a Headlee Rollback occurs, the only way to increase millage rates is through a vote of the people, typically referred to as a Headlee Override. Proposal A exempted new construction from the rollback, but it did not for uncapped taxable value. When a property gets uncapped, the property owner must pay higher taxes on the property, however, that new value becomes part of the Headlee Rollback calculation and municipalities many do not recognize revenue from uncapping.

The Consequences

Although it might appear that a community with an annual increase in uncapped property values would benefit monetarily, uncapped values are treated as growth on existing property may trigger Headlee rollbacks. For local governments levying at their Headlee maximum authorized millage, rolling back the maximum authorized millage rate reduces the revenue that would have been generated from these increased property values. The increase in the taxable value of property not transferred is capped at the lesser of inflation. In essence, the Headlee Amendment and Proposal A keep property taxes from rising faster than inflation. Even though the taxable value of a particular piece of property increases at the rate of inflation, the millage rate for the entire community is “rolled back” because of the increase in the total taxable value of the community. The net result is a less than inflationary increase in the actual dollars received from property taxes. Consequently, the 1994 change to the General Property Tax Act has prevented local governments from being able to share the benefits of any substantial market growth in existing property values.

What does this mean for Benzie County?

Proposal A

Benzie County set is general fund millage rate for an "indefinite" amount of time in 1982 at 5.29 mills. Over the past year through the Headlee rollback process, the general fund millage rate has been reduced to 3.443 for the 20/21 fiscal year. While the overall taxable value in Benzie County has grown over the years, the general fund millage rate has steadily been decreased to the point that our annual expenses are outweighing the annual revenue coming into the County. Headlee rollbacks will continue in the future.

If Benzie County continues to operate at this rate of reduction in the General Fund Budget, county services will deteriorate, diminishing support for our citizens.

What can fix this?

Benzie County Administration and Board of Commissioners have been actively discussing this financial crisis and are preparing documents for the voters to propose a millage to renew and restore the original millage from 1982. The last time it was brought before the voters was November 2002. Our neighboring counties ask voters to reset their general fund millage every 4-5 years. Benzie County doesn't necessarily need to take this action, but if we adopt a similar option, we can alleviate some of the financial crisis that the County faces.