A numbers game

Understanding your 2009 property assessed and taxable values

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TABLE 1: Inflation Rate Multiplier (IRM), 1995–2008

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
1.026	1.028	1.028	1.027	1.016	1.019	1.032	1.032	1.015	1.023	1.023	1.033	1.037	1.023

Understanding how taxable values change

On October 27, 2008, the Michigan State Tax Commission issued Bulletin No. 6 of 2008 communicating the Inflation Rate Multiplier (IRM) of 1.044 to be used in the 2009 Capped Value Formula. The 2009 Capped Value Formula is as follows:

2009 Capped Value =
(2008 Taxable Value – Losses)
x 1.044 + Additions

This 2009 IRM is the highest since initiation of Proposal A as demonstrated in Table 1.

To understand the effect of the IRM on taxable value (and ultimately property taxes) we'll apply it to two scenarios. One where the assessed value drops below the calculated capped value, causing an "uncapping" of taxable value; and another where the capped value is less than assessed value. Let's first review some basic terminology in Table 2.

Now let's take two scenarios, where there is a differing spread between the prior year's assessed and taxable values and demonstrate the "uncapping effect", assuming no change in the property (losses or additions). Let's also assume the assessed values in both scenarios decreases.

As illustrated in Table 3, Scenario 1's calculated taxable value is its 2009 capped value as that is lower than its assessed value. Whereas in Scenario 2, because the assessed value was reduced below the calculated capped value amount, the assessment becomes the basis of taxable value.

Benchmark for protesting your property's true cash value

Keep in mind that your property is taxed on its taxable value, not assessed value. So if you are questioning whether to appeal your property's value, and the basis for your appeal is whether it would result in an affect on your pocketbook, then simply take your taxable value and multiply it by two (2). This reflects the ceiling below which your property's true cash value would have to be reduced. Turning back to our earlier scenarios; under Scenario 1 you would have to receive a valuation reduction of less than $187,920 ($93,960 multiplied by 2), while under Scenario 2 you would have to receive a valuation reduction

TABLE 2: 2009 Assessment Values

Assessed Value: Defined by Michigan law as 50% of the property's true cash value (i.e. market value) as of tax day (December 31, 2008).

State Equalized Value: Assessed value resulting after county and state equalization.

Capped Value: (2008 taxable value - losses) x IRM + additions.

State Equalized Value: The lesser of assessed or capped value unless there is a transfer of ownership. When a property transfers ownership, then taxable value is uncapped in the year following the transfer of ownership and the taxable value is the same as its state equalized value (i.e. assessed value).

**Losses are physical changes to a property which result in a loss of value (such as removing a garage); while additions are physical improvements which add to a property's value (such as an addition).*

TABLE 3: Taxable Value Computation Example

	SCENARIO 1	SCENARIO 2
2008 Assessed Value	$100,000	$100,000
2008 Taxable Value	$90,000	$95,000
2009 Assessed Value	$95,000	$95,000
Calculation of 2009 Capped Values		
2008 Taxable Value	*$90,000*	*$95,000*
minus losses	*$0*	*$0*
x IRM	*1.044*	*1.044*
subtotal	*$93,960*	*$99,180*
plus additions	*$0*	*$0*
equals 2009 Capped Values	*$93,960*	*$99,180*
2009 Taxable Value	$93,960	$95,000

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of less than $190,000 ($95,000 multiplied by 2) for either reduction to affect your property taxes.

Risks inherent in appeals

Every facet of life's choices involves risks, and property tax appeal is no different. With property tax, as noted above, the taxable value changes based on 1) the IRM, and 2) whether or not the assessed value drops below the calculated capped value. But often overlooked is the risk of *omitted* property. MCL 211.34d(1)(b)(i) defines omitted real property as, in pertinent part: "*…previously existing tangible real property not included in the assessment…*" It further provides for the omitted property to be added "retroactively" as identified further in Section 34d, in pertinent part "*…[o]mitted real property for the current and the 2 immediately preceding years discovered after the assessment roll has been completed, shall be added to the tax roll…*"

It is important to research your property records before you file any property tax appeal on your property. Find out if your assessment records accurately identify all the property that you own. That way, you can make a conscientious decision about appealing. For example, if you review your assessment record and discover that the record does not identify your deck, basement finishes, or that second fireplace, then you might take a conservative position and *assume* that when you file a valuation protest that the assessor will *discover* the omitted property and will add it to your taxable value as an *addition*.

You should also review your records for any property upon which you are being taxed that doesn't exist. For example, perhaps your property at one time included a one-car detached garage. Although you purchased the property without the garage, it is possible (and oftentimes happens) that the assessor neglected to take that improvement off your assessment record when the garage was demolished, thus you're paying taxes on property that does not exist. This would cause an immediate reduction in taxable value as it would represent a *loss*.

Real estate appeal jurisdictions

If you decide to appeal your residential real property values, you must first protest to your local *March Board of Review*. In the event that your appeal results are not satisfactory, you have until July 31st (of that same year) to appeal to the Michigan Tax Tribunal. Owners of commercial and industrial real estate may skip the March Board of Review activity and appeal directly to the Michigan Tax Tribunal by filing their protest by May 31st, for the same year they are appealing. **MAR**

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***Editor's Note:** In the Michigan REALTOR® November 2008 issue, a graph/table was left out of Micheal Lohmeier's article entitled "Stuck in the Middle, Appraisals for divorce: a specialized area of practice." This table can be viewed at MAR's Web site www.mirelators.com. If you would like a copy faxed to you, please call the MAR office at 800.454.7842 ext. 535.*