



UNDERSTANDING MY PROPERTY TAXES IN A DECLINING MARKET

Frequently Asked Questions

Q: What is Proposal A and how does it affect me as a homeowner?

A: On March 15, 1994, Michigan voters approved the constitutional amendment known as Proposal A. Proposal A was designed to limit the large increases in property taxes that we experienced back in the late 1980's and early 1990's when home values were rising by 10% and 15% each year by limiting the increase in your taxes to that of the Rate of Inflation or 5% whichever is less. Beginning in 1995 Taxable Value (TV) was added and became the value that is used to calculate your property taxes. So beginning in 1995 your TV was the same as your State Equalized Value (SEV). From then forward, Taxable Value can only increase by the Rate of Inflation or 5% whichever is less.

1995 SEV = 50% of your home's true cash value

1995 TV = 50% of your home's true cash value

Q: So how has Proposal A helped homeowners?

A: Proposal A was to limit the large increases in your taxes because of the ever rising home values. (Remember, $TV / 1000 \times \text{Millage Rate} = \text{Taxes}$) As your SEV increased 10% or 15% each year, so did your taxes (provided the millage rate stayed the same). With Proposal A, your TV can only change by the rate of inflation if no physical changes occurred to your property. On an average, your TV has increased only 2.7% per year over the past 15 years while your SEV increased double digits. Between 1995 and 2006 the average difference between ones SEV and their TV had grown to between 30% and 35% if you have lived in your home since the beginning of Proposal A. Without Proposal A your taxes could be that much higher assuming no change in the millage rate

Example: SEV \$70,000 x .0461924 mills = \$3,233 total tax bill (Based on SEV)
TV \$45,500 x .0461924 mills = \$2,101 total tax bill (Based on TV)

(Property values began to decline in 2006, 2007, 2008 and continue to decrease during 2009)

Q. Why are my taxes so much higher than my neighbor when our homes are identical?

A: The main difference depends on how long you have lived in your home since Proposal A was enacted in 1994. As an example, assuming the previous owner and your neighbor both had an SEV of \$70,000 and a TV of \$55,000, and let's also assume you purchased your home in 2000. As a new home owner, the year following the purchase you become "uncapped" which means that the Taxable Value on your new home was changed to reflect the SEV. So in 2001, both your SEV and your TV became \$70,000. Therefore your taxes will be based on the TV of \$70,000 (your new base) while your neighbor's taxes will be based on the \$55,000.

Q: When I bought my home, why was the SEV not placed at 50% of my sale price if my sales price is fair market value?

A: With each sale, different factors go into an agreed upon sales price between a buyer and seller. In today's market we have Bank owned sales, Auction Sales, Estate Sales, Short sales etc. and one sale does not and cannot determine the average sales price for a given neighborhood. Therefore, it is important to note that 50% of a sales price does not become the SEV for that property. The SEV is based upon the overall market within a neighborhood and that "one sale" does not necessarily determine the value for that property.

Q: With property values declining, how does the Assessor determine what the true cash value is?

A It is strictly based on valid Arms Length Sales. When the real estate market was increasing, the State Tax Commission allowed Assessors to use the sales of home in your neighborhood over the previous 24 months to make yearly adjustments. Therefore, we were always behind or trailing the market. Now that we are in a declining real estate market, the State Tax Commission has allowed Assessors to use a 12 month sales study to more accurately reflect current market conditions. The 12 month period is October 1st thru September 30th each year.

Q: Now that there is a downturn in the real estate market, why are my taxes going up while my property values are going down?

A: Proposal A has accomplished what the votes of the State of Michigan wanted it to do fifteen years ago. Property tax increases were limited to the rate of inflation or 5% whichever is less. What was never discussed in the proposal was what happens when there is a down turn in the real estate market and the answer is simple, but a bit unsettling. If there is a gap between your SEV and your TV, your SEV will decline but the inflation rate will still be applied to your TV, increasing your taxes. Keep in mind however, that as your SEV declines and your TV increases, your TV can never go higher than your SEV.

Example		
2008 Market Value (at 12/31/2007)		\$ 140,000
SEV = 50% of Market Value		\$ 70,000
2008 Taxable Value (used as an example)		\$ 55,000
(Est Property Taxes \$55,000 x .0461924 Homestead millage rate = \$2,540)		
2009 Market Value (-15%) (at 12/31/2008)		\$ 119,000
SEV = 50% of Market Value		\$ 59,500
2008 Taxable Value x CPI 4.4%		\$ 57,420
2009 Taxable Value		\$ 57,420
(Est Property Taxes \$57,420 x .0461924 Homestead millage rate = \$2,652)		
(This example assumes a consistent millage rate)		

Q: I have several vacant foreclosed homes on my street and several that have been purchased from the Bank for 30% to \$40% of what the Assessor claims the home is worth; If that is what they are selling for, why haven't my SEV and TV been reduced to that level?

A: The State Tax Commission has issued guidelines concerning foreclosed sales and, generally speaking, these guidelines preclude the Assessor from considering foreclosed sales when calculating values for assessment purposes. For this reason, all distressed sales, such as sales involving mortgage foreclosure or sales involving transfers to or from relocation companies, are not considered as typical 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. **HOWEVER, SALES FROM FINANCIAL INSTITUTIONS WILL BE CONSIDERED.** These are sales from Banks to private individuals once the Bank has taken possession of the property and is selling or auctioning the property. For the 2010 assessment year, many of these "below market" sales will be considered but only to the extent that there is a definitive pattern to the overall sales. As always, there is an upper and lower limit to "market sales" when reaching an overall market value conclusion in each neighborhood.

Q: If I don't agree with the Assessor as to my SEV or TV, how can I appeal the value?

A: All taxpayers receive a Change of Assessment Notice in February. The Notice will indicate your last year values and the changes made to your upcoming Assessment and Taxable Values. On that notice will be the dates and time in March available to appeal your assessment. Please note that you can only appeal your Assessed Value and not your Taxable Value. Your Taxable Value is nothing more than a calculation from your previous years Taxable Value and since it can not be higher than your Assessed Value, it can not be appealed. Should your Assessed Value be reduced below your Taxable Value, then your Taxable Value will be lowered to reflect the change in your Assessed Value because it can not be higher. Once you receive your Notice, you will need to come into the Assessors Office to schedule an appointment and to review the various sales used to support that assessment. You may appeal your assessment in writing if you are unable to attend a formal hearing in front of the Board of Review, however it must be post marked on or before the last day of the actual hearing date.

Q: How can I be sure that I am receiving all the tax breaks that I am eligible to receive?

A: All property owners in the State of Michigan pay property taxes to provide funding for their local and County Government, Schools and Community Colleges. The State provides two ways of property tax relief. The first, a tax credit for homeowners is the Michigan Homestead Property Tax Credit and the second is called the Principal Residence Exemption (PRE) or previously known as Homestead Exemption

Q: What is a Property Tax Credit?

The State of Michigan refunds homeowners up to \$1,200 of their property taxes if your household income is below \$82,650. The request for a refund must be filed yearly with your income taxes on form MI-1040CR. This is important for Senior Citizens who only receive Social Security.

Q: What is a Principal Residence Exemption (PRE) and do I qualify for one?

A: You qualify for the Principal Residence Exemption or Homestead if you own and occupy your home as your Principal Residence. This exemption exempts you from the 18 mills of local school operating tax. You can check your percentage of Principal Residence Exemption on your “Change of Assessment Notice” that you received in February or on your most recent Tax Bill. If it indicates 100%, you are receiving this exemption. You can only have one exemption which must be on our primary residence. You may not receive an exemption on a business or on a second home used as a cottage or rental.

Q: I pay a lot in property taxes, so where does it all go?

A: The taxes you pay go for many services. The Treasurer is responsible for collecting all taxes that are levied on property owned here in the City of Taylor each year. City taxes represent approximately 48% of your total property taxes. This portion provides the funding for all general services, maintenance of all city owned buildings, recreational facilities, parks, senior services, snow plowing, road repair, District Courts, Police and Fire protection, library, and curb side garbage pickup. Approximately 26% of your property taxes are for Wayne County Government and other taxing authorities. The County provides services for the Health Department, Sheriffs Department, Parks, Airport Transit Authority, Jail and Courts. The other taxing authorities would be the voted Zoological Millage, voted Wayne County Parks millage, etc. The Taylor Public Schools, County Intermediate School District, Wayne County Community College and State Education Tax represent approximately 26% of your taxes.

Q: What if I don't pay my property taxes?

A: If your current property taxes have not been paid before March 1st of the following year, they will become delinquent. Once your taxes have become delinquent you are no longer able to pay them at the City of Taylor. The taxes become a lien of the property and the County Treasurer is responsible for collecting the taxes. Refer to the County Website at:

www.waynecounty.com/mygovt/treasurer

The Delinquent Real Property Tax Cycle is:

March 1st (first year) Delinquent

March 1st (second year) Property forfeited – Process of foreclosure begins.

March 31st (third year) Property Foreclosed – Ability to redeem property expires.

PLEASE VISIT THE ASSESSORS WEBSITE FOR ADDITIONAL INFORMATION

www.cityoftaylor.com

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