



FROM THE OFFICE OF THE CLARE CITY TREASURER

In our last article we started a series of articles on property taxes with a discussion of tax millage rates within the City of Clare. This month we are continuing that discussion with a review of the other side of the property tax equation, assessed and taxable values. Though property taxation can and is different from state to state we will limit our discussion to the State of Michigan. If you own property in another state please be aware that the information that we are providing this month may or may not apply in the other state and you should therefore contact the taxing authority of that municipality to determine how your property taxes in that state are determined.

Before we begin our discussion we need to provide a couple of definitions as they are used within the State of Michigan. We also need to clarify that local taxing authorities such as the City of Clare collect two types of property taxes, real and personal property.

Real estate property taxes include taxes on land, buildings and other permanently attached fixtures. All non-exempt property owners pay real estate property taxes on the residential, commercial, industrial and agricultural property that they own.

Personal property taxes as a general rule only apply to businesses and include taxes on machinery, equipment, furniture, non-permanently attached fixtures, signs and other tangible property that the business uses in their business activities.

Assessed Value – The assessed value of a property is established as one half of the fair market value, or true cash value of the property based upon the physical characteristics of the property, prior sales of the property and sales of similar properties within a locally defined neighborhood that encompasses your property.

Taxable Value – The term taxable value was established in Michigan on March 15, 1994 and was implemented in 1995 as part of Proposal A. Taxable value refers to the base amount that is used to determine the property taxes for each parcel of real property.

P.R.E. (Primary Residence Exemption) – If you own and occupy your principal residence it may be exempt from a portion of your local school operating taxes (currently 18 mills). Within the scope of our discussion to own means that you hold legal title to the principal residence, it isn't leased or rented. To occupy a principal residence for the purpose of claiming the P.R.E. exemption the residence must be where you reside, the property's address must appear on your driver's license and your voter registration card. You can only claim one principal residence for the P.R.E. exemption at a time and vacation homes, income property and non-residential property do not qualify for the P.R.E. exemption. To claim the P.R.E. exemption you must complete the Homeowner's Principal Residence Exemption Affidavit (Michigan Department of Treasury form 2368) and file it with the township or city assessor or treasurer where your property is physically located by May 1st of the year that you desire to begin claiming the exemption.

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With the preceding definitions we are now ready to review the process of establishing assessed and taxable values and how these values are used in determining the property taxes for each parcel.

Michigan law requires that the assessed and taxable values of all real and personal property throughout the state be determined and certified no later than the first Monday in March by an individual who is trained and has been certified to perform the duties of an assessor. For the purposes of property taxation we will confine our discussion to the taxable value, which as indicated above was first implemented within the State of Michigan in 1995.

Taxable values are adjusted each year based upon the *lesser* of the Consumer Price Index (CPI) of the preceding year or 5% until the ownership of the property is transferred to a new owner. Simply stated, Proposal A “capped” the taxable value of all real property within the state of Michigan so that it cannot increase more than the rate of inflation (CPI) or 5%, whichever is less in any given year. For those property owners who purchased and then own their property for a considerable period of time they are effectively shielding themselves from more significant property tax increases as their property appreciates, provided property values are increasing in that particular area. If property values are declining then the law as implemented through Proposal A may not necessarily benefit the property owner until the property is sold and the value is “uncapped” and accordingly adjusted. One note on this issue is that a property’s taxable value cannot exceed its assessed value. Therefore, if the assessed value has declined, which it can, then the taxable value may also consequently decline.

It is important to note that a property’s taxable value can decrease or more commonly increase more than the Consumer Price Index in the following, very defined circumstances.

1. When a property is sold and/or a title transfer occurs then in the year following the sale and/or the title transfer the property becomes “uncapped” making the assessed, the State Equalized Value (SEV) and taxable value all the same. Michigan law states that the actual sale price is not to be the sole basis for the new value established for that particular property. The assessor must also use the physical characteristics of the property, the sale information of other properties in the locally defined neighborhood that encompasses that property and any other statistically valid market information to insure a fair and equitable market value. This value should thereby represent a valid selling price of the property under normal conditions.
2. New property construction or renovations of at least 50% of the property’s assessed value.
3. The value of the property was incorrectly determined due to the omission of tangible characteristics that increased the assessed and taxable values of the property.

Though some people may consider property taxation to be somewhat subjective or unfair it is actually a very defined process that is controlled by Michigan law, most recently significantly implemented through Proposal A. Local taxing authorities are required to follow a very defined procedural process which includes for instance conducting public meetings for the establishment of non-voter approved millage rates, receiving voter approval for certain tax millages and also conducting Board of Review meetings to provide a forum to challenge assessed and taxable values. For a complete review of voter and non-voter approved millages please refer to our December 2007 article on property tax millages which is now available within the Treasurer’s page on the City of Clare’s Internet site located at www.cityofclare.org .

This presentation contains a lot of information and may very well develop additional questions. If you have questions about this information or any other finance or property tax matter within the City of Clare I encourage you to give me a call (386-7541, extension 107), stop by City Hall or if it is more convenient you can send me an e-mail message at skingsbury@cityofclare.org .