



Garfield

Charter Township

SERVING THE CITIZENS OF NORTHERN MICHIGAN

Buying a New Home?

Property Information That You Should Know

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Congratulations! You've decided to purchase a home ...

Without a doubt, the most common question of the assessor's office since the passage of Proposal A of 1994 is "What will the property taxes be on a property in the year following the purchase?" In most states, this is a question easily answered, but in Michigan this is a question that is seldom answered before the beginning of the new tax year.

In 1994, the voters of Michigan passed a referendum commonly known as Proposal A. Proposal A originated as a reformation of K-12 education funding but is becoming more renown for the provision in the enacted law that allows for the "uncapping" of a property's taxable value in the year following a transfer. Hopefully, the following information will explain this particular provision and its impact on the new property owner.

Background Information

Every property in the State of Michigan has three values calculated for it. The first is the *Assessed Value*, which is the value calculated by the assessor and then through the equalization process transforms into what is commonly referred to as the SEV (*State Equalized Value*); the second is the *Capped Value* and the third is the *Taxable Value*. The two values that will be focused on here are the assessed and taxable values.

Assessed Value

The **assessed** is a value equal to 50% of the property's true cash value as determined on December 31st of the previous tax year. An example of this is if a property's true cash value calculation is \$70,000 based on its December 31st 2011 status, the assessed value for 2012 would be \$35,000 (50% of true cash value). That calculation formula is easy because it is the same for all parcels and there is no "cap in value" to deal with for the assessed value.

Taxable Value

The **taxable** value calculation has variables that do not make it the same for all properties. In cases where a property has not experienced a transfer of ownership in the previous year, the taxable value will be determined by:

1. taking the previous year's taxable value;
2. subtracting any property loss that may have occurred (demolition);
3. multiplying the result of 1-2 (above) by the *Consumer Price Index* (CPI) as established annually by the Michigan State Tax Commission; and finally,
4. adding any new value (new construction) that may have occurred in the previous year.

That sounds complicated and in some instances can be, but the majority of properties will calculate using the simple formula that does not have any new value or less of value.

The following is an example of a typical annual taxable value calculation:

$$\begin{array}{r} \$ 30,000 = 2011 \text{ Taxable Value} \\ \text{No property loss} \\ \text{No new construction} \\ \underline{\quad \times 2.7\% \text{ (CPI)}} \\ \$ 30,810 = 2012 \text{ Taxable Value} \end{array}$$

This capped taxable value formula is a guaranteed protection the voters of Michigan gave themselves to ensure that their taxable values from one year to the next could not increase by more than the CPI, or 5%, whichever was less, as long as they were the owners of the property (and nothing had changed in the physical status of their property such as new construction). The taxpayers in Michigan need look no further than across the border to their neighbors in Wisconsin, whose tax system does not include this “capped” formula protection, to realize how fortunate they truly are.

How Michigan compares ...

In Wisconsin, if the true cash value of a property is \$70,000, the owner pays the taxes on \$70,000. If the value of the property increases by 10% (in this example, \$7,000) then the next year the owner begins paying taxes on a property worth \$77,000. That same value scenario for a property located in Michigan would have resulted in an increase that is capped by the previously mentioned formula for the taxable value (2.7% increase for 2012) versus the 10% increase under Wisconsin tax laws.

Be an Informed Buyer

Knowing these basic principles concerning the property tax formulas will help you understand what happens to the property's taxable value after a transfer of ownership. The “capped taxable value” formula that was demonstrated earlier relates to properties that have not experienced a transfer of ownership in the previous year. The “uncapped taxable value” is the term used to describe the taxable value calculation in the year following a transfer of ownership. This calculation is very simple

One of the frustrations for potential buyers who are trying to determine what the uncapped taxable value will be on the property they buy is that the assessing cycle that most assessors work under does not allow for a calculation of an exact assessed and taxable value for the following tax year until all sales studies have been completed and analyzed by both the local assessor and the Equalization Department. The results of those studies are typically not integrated into the value calculations until late in the year. So, while most property owners can estimate their next year's taxable value by multiplying the new CPI by the previous year's taxable value, property owners whose properties experienced a transfer of ownership must wait until the assessor has determined the assessed value to know for sure what the taxable value will be.

Michigan's property tax laws are complicated and contain many provisions that can affect the taxes paid on a property. Although not specifically addressed here, there are different types of transfers ownership that can occur that will "uncap" a property's taxable value. Property owners should be aware that many of these transfers do not involve an actual sale, but come about as a result of estate planning, family sales, etc.

Property owners should inform themselves of the consequences that an instrument of transfer may have on their property taxes. This information can be found by accessing the State of Michigan - Treasury website. "Transfer of Ownership and Taxable Value Uncapping Guidelines" is the name of the link. Property owners without internet capability can contact their local assessor's office to obtain a copy of the guidelines.

Here to answer your questions

As a taxpayer in Garfield Township, you are concerned about paying only your fair share of taxes for services provided and received. In Garfield Charter Township we understand and appreciate those concerns.

The Assessor and staff is available to assist you with your property tax questions during normal business hours, 7:30am – 6:00pm, Monday through Thursday, and closed on Fridays. Please feel free to contact the Assessor's Office during these times if you need assistance or have questions about your property tax assessment.

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