

City of Ludington: Assessing Department

Understanding Proposal A

Proposal A was approved as a constitutional amendment by Michigan voters in 1994. It was designed to limit the growth of property taxes by the Consumer Price Index until ownership of the property was transferred.

Prior to Proposal A, property taxes were based on the State Equalized Values (SEV). Since the passage of Proposal A, taxes are based on Taxable Value (T.V)

Each year, the Assessing Office must calculate the S.E.V. for every property based upon the time frame required by the State Tax Commission (STC). A property's taxable status is determined as of December 31 of each year, known as tax day.

In addition, the assessor must calculate the taxable value for every property based on the changes to the CPI, plus any additions or losses to the property. The taxable value cannot increase more than 5% in any year. **For 2010, the CPI has been calculated to be .997%.**

Sale Price is not the True Cash Value

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

“Following sales” is described as the practice of assessing properties which HAVE RECENTLY SOLD differently from properties which HAVE NOT RECENTLY SOLD. This is unconstitutional and illegal.

It is important to note that a property does not uncap to the selling price but to the SEV in the year following a sale.

Foreclosure Sales

Part of the definition of usual selling price is the qualifier that the sale does not involve any element of distress from either party. The STC has issued guidelines concerning foreclosure sales and generally speaking, these guidelines prevent the assessor from considering foreclosure sales when calculating values for assessment purposes.

For this reason, all distressed sales, such as mortgage foreclosures or sales involving transfers to or from related parties 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 the current or assessed values or appeals.

Important terms on your notice

Taxable value: The value used to calculate the tax on your property. Due to proposal A, a property's taxable value can only increase annually by the rate of inflation or 5%, whichever is less, unless there is an addition to the property or the property transferred ownership during the previous tax year.

For 2010, the CPI is .997. Unless there was a transfer of ownership or new/omitted property added, this results in a taxable value decrease for 2010.

State Equalized Value: One half of the property's TCV

Assessed Value: Generally the same as the SEV, unless an equalization factor other than 50% has been applied by the State or the county in which the property is located.

Remember, it is possible for two identical homes to have drastically different taxable values and taxes. Proposal A capped taxes on homes that are not sold, added the principal residence exemption, but does not necessarily mean similar values homes pay the same amount in taxes.