

UNDERSTANDING PROPOSAL A

On March 15, 1994, the voters of Michigan passed a state constitutional amendment known as Proposal A. This proposal created a new term called Taxable Value (TV), or the figure against which millage would be multiplied to determine property taxes. Local assessors are still required to compute an Assessed Value (which is 50% of the usual fair market value) along with the Taxable Value.

Proposal A requires that:

Assessments are calculated yearly at 50% of the usual fair market value, using a 1 or 2-year sales study.

Taxable Value of a parcel be determined using a methodology mandated by the State legislature, and which can not be changed by any local community. The calculation formula takes the previous year's taxable value, minus any physical losses to the property, plus any physical additions to the property, multiplied by 5% or the rate of inflation - whichever is less (2.3% for 2008).

Thus, Proposal A "**caps**" the growth in TV in those years when market values (Assessed Values) are increasing faster than inflation. Over the course of many years, Proposal A allows many taxpayers to pay property taxes on significantly less than the market value of their property.

Proposal A's Relationship to Housing Market Downturns

As long as the TV of a property remains less than the SEV, TV will increase under Proposal A's formula. If there is a significant gap between the SEV and TV figures for owners, it would take several years of depressed market conditions for the TV to catch up to SEV. Thus, a tax increase could occur for many homeowners even in a market downturn.

Taxable Value Reset Upon Transfer of Property

When property is transferred, the TV is reset or "uncapped" and returned to being the full (SEV) for the following year. This most often results in a new property owner paying higher taxes than the previous owner, who may have been benefitting from many years of capping. Potential buyers should always use SEV when estimating a property's tax liability.

