

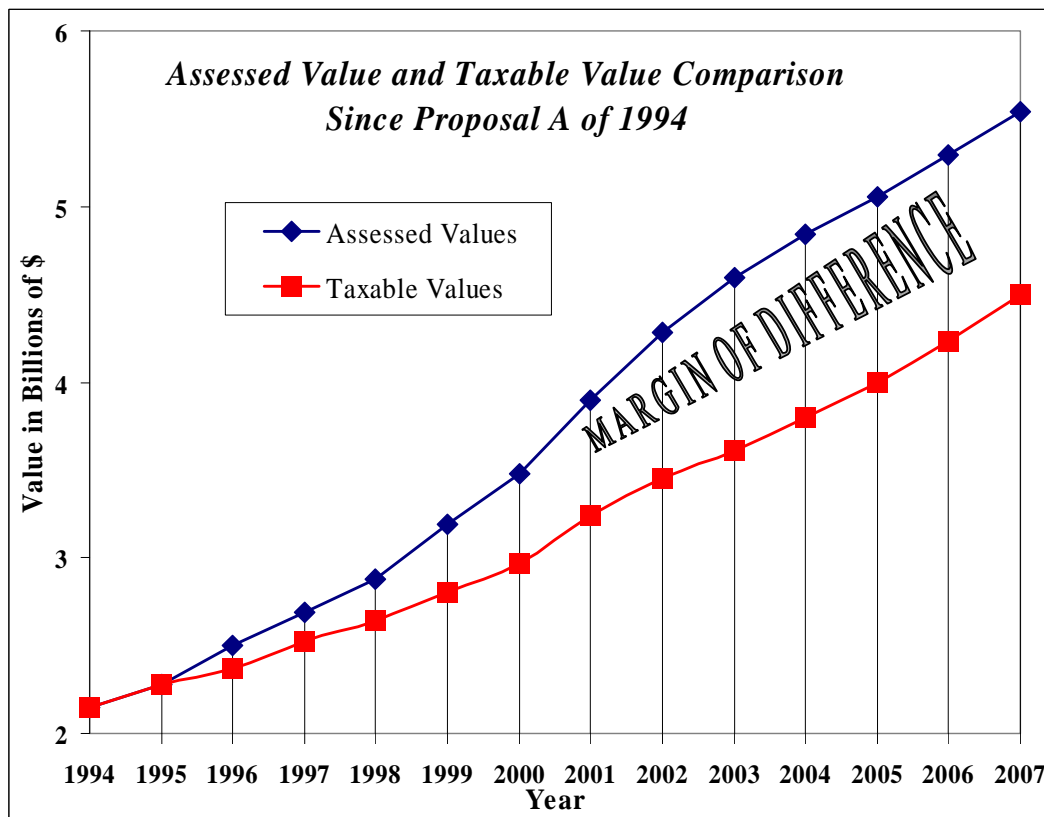
How Will the Decline in the Real Estate Market Impact My Property Taxes?

By Donna Stokes, CMAE 4
Muskegon County Equalization Director
Muskegon County, Michigan
February 2008

Housing prices are dropping! The market is falling! Look at all the foreclosures! My property taxes can't possibly be going up. If anything, they should be dropping like the market. Although on the surface it would seem logical that taxes wouldn't be rising while in a declining housing market, that may not be true under the Michigan Property Tax system.

The problem with the picture above is Proposal A, which Michigan voters passed in 1994. Proposal A placed a limit or cap on increases in taxable values and consequently property tax increases. Following its passage, each property has three values – a capped value, a taxable value and an assessed value. Taxes are no longer based on assessed value or half of market value in the state. Although assessed value is still important, a home has two other significant values which impact how much property tax will be paid. For properties that have not been “transferred” or sold and had no other changes such as physical changes in them, the value that is important for tax payment is taxable value, which in that case would be identical to the capped value. Taxes in such a case are based on the prior years taxable value times the lower of 1.05 or the rate of inflation, which for 2008 is 1.023 unless the assessed value is lower. Because the taxable value will only grow by the CPI or 5%, unless there is a transfer of ownership or a physical change in the property, there may be a significant gap between the assessed value and the capped value.

The chart and table below shows the difference between assessed value and taxable value of Muskegon County property since Proposal A took effect in 1994.



<i>Year</i>	<i>Taxable Value</i>	<i>Assessed Value</i>	<i>Difference</i>
1994	2,143,790,778	2,143,790,778	0%
1995	2,280,632,929	2,280,632,929	0%
1996	2,368,439,887	2,497,060,814	5%
1997	2,523,467,328	2,693,583,620	7%
1998	2,639,408,331	2,876,769,060	9%
1999	2,808,287,454	3,191,715,441	14%
2000	2,969,387,077	3,475,535,083	17%
2001	3,244,251,018	3,896,510,084	20%
2002	3,453,067,789	4,284,270,433	24%
2003	3,613,148,739	4,594,019,022	27%
2004	3,795,561,731	4,840,137,970	28%
2005	3,995,550,610	5,053,598,542	26%
2006	4,237,701,230	5,295,156,733	25%
2007	4,496,107,219	5,543,825,045	23%

For the average taxpayer, based on the average spread between assessed value and taxable value, which was 23% for 2007, even with the market currently declining, the taxable value would still increase under Proposal A unless assessed value declined by more than 23%. (Because this is based on averages, it would depend on the taxpayer's individual circumstances as to how much of a decline in assessed value would result in a decline in taxable value). Thus, a drop in assessed value will not result in a decrease in the tax bills. The flip side is that because of Proposal A capping the value property tax is based on, an increase in market value does not increase the tax bills of many taxpayers as rapidly as the market might be increasing. This is because the increase in taxable value is limited to the lesser of the CPI or 5%, while market value increases have no cap.

To illustrate how a homeowner might be impacted in a year of declining market values, assume that the homeowner owned the property for some time. Assume that the 2007 assessed value was \$50,000. Assume that the taxable value in 2007 was \$40,000 and there was no transfer of ownership or any other changes to the property, except for the change in market value. If property values in the property's neighborhood were found to be declining 5%, the 2008 assessed value would be \$47,500 ($\$50,000 \times 95\%$). The capped value would be $\$40,000 \times 1.023$, the CPI for the 2008 assessment year, or, \$40,920. The taxable value would be \$40,920, as it is the lesser of the capped value or the assessed value. Although the assessed value of the property in this example declined, the taxable value still increased.

If instead of declining in the above example market values were actually increasing by 5% in 2008, the assessed value would be \$52,500 ($\$50,000 \times 1.05$). The capped value would be $\$40,000 \times 1.023$, the CPI for the 2008 assessment year or, \$40,920. The taxable value would be \$40,920, as it is the lesser of the capped value or the assessed value. This illustrates that although the market is increasing at a faster rate than the CPI, taxable value will only be based on the CPI increase, not the market value increase, assuming no transfers of ownership occurred.

The taxable value in the above example is going up despite the declining market, but the property owner who owned the property over this period of time had been paying property tax on a taxable value that was below market value for most of this period. Thus, while the decline in assessed value is not necessarily reflected in the

tax bill, neither is an increase in assessed value, at a rate faster than the lesser of the CPI or 5%, reflected in the tax bill if there are no transfers of ownership.

Property owners should still carefully review their assessment notices. If they have questions or concerns, they should contact their local assessor. If they have further concerns, they should exercise their right to appeal. However, because of Proposal A, an appeal may not result in lower taxes. Property values may be declining, but that does not always mean a decline in property taxes just as increasing property values do not translate into a corresponding equivalent percentage increase in taxes.