

## A Brief Primer on Property Taxes

2/6/2012 Christian E. Meyer

If you haven't already, you should soon receive in the mail a Notice of Assessment, Taxable Valuation, and Property Classification from your local assessor for each parcel of real property that you own. Printed on the top of the notice in big, red capital letters is: THIS IS NOT A TAX BILL. So, folks are inclined to throw the notice away. Don't.

This notice lists five important things about your property as determined by the assessor: its assessed value; its taxable value; its classification; whether certain exemptions, such as principal residence, qualified agricultural property or others, apply; and whether the property was transferred in the prior year. The notice all sets out the process for appealing any of the above items, should you want to do so.

It's important to understand the alphabet soup of terms and acronyms. The assessed value, or AV, is 50 percent of the true cash value, or TCV, as determined by the local assessor as of Dec. 31 of the prior year. Generally, TCV is the usual selling price or fair market value of property as determined by any method recognized as accurate and reasonably related to market value.

The state equalized value, or SEV, is 50 percent of the true cash value, as determined by the State Tax Commission once all properties throughout the state have been uniformly assessed. If the local assessor has done his or her job properly, the AV will ultimately be adopted as the SEV.

In the year immediately following a transfer of ownership, the taxable value, or TV, of the property is the same as the SEV, or 50 percent of the true cash value of the property on Dec. 31 of the prior year. Until ownership in the property is transferred again, the TV of the property is the lower of either the SEV for that year or the TV for the prior year increased by the lesser of 5 percent or the rate of inflation. This allows a taxpayer to enjoy some tax protection in a rising real estate market yet still typically receive a tax break in a falling market.

Classification describes the actual use of the property – or in some cases the property's highest and best use, such as industrial, commercial, agricultural, residential, etc. This is not the same as zoning, which describes what property can be used for.

### When to Appeal

Property owners need to file their appeals strictly in accordance with the instructions provided on the notice, which may vary slightly from jurisdiction to jurisdiction, if they would like to challenge the

assessed or taxable value of their property. There are four good reasons to file an appeal – but make sure you do so in a timely manner:

- **Valuation.** You believe that your property is worth less than twice the TV. Since taxes are based on TV, generally speaking it only makes economic sense to appeal your property taxes if you can show that the TCV is less than twice the current TV. Remember that the burden of proof is on you as the property owner. But also remember that Proposal A caps the TV of the property for as long as you own the property. So reducing your TV even by a relatively small amount now could provide a nice annuity for you in the future, should the real estate market recover.
- **Vacancy.** You are a landlord and your occupancy rate is lower than it was last year and as a result the TCV of the property has decreased. Vacancies that cause a loss in TCV are considered “losses” under Proposal A and so can be deducted directly from the TV.
- **Classification.** You own property classified as commercial but believe a better classification would be industrial. This is important because you may be entitled to a personal property tax exemption for equipment located on industrially classified property that exceeds the exemption available to personal property located on commercially classified property.
- **Exemption.** You believe your property should be totally exempt from taxes because, for example, you meet the charitable ownership and use requirements of Michigan law, or partially exempt from taxes because again, for example, you meet the qualified agricultural property or principal residence requirements of Michigan law.

Again, the notice includes the appeal deadlines, which are strict. If you miss them, you won't be able to continue the appeal. So carefully scrutinize the notice, understand your rights, and appeal on time.

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