

PROPERTY TAX FREQUENTLY ASKED QUESTIONS

How can property taxes still rise, when home values are declining?

This is a common question that is asked among Michigan property taxpayers. This note is intended to explain the process of taxation and how it works. Although this does not cover every scenario, it is a guide to understanding how your taxes are calculated.

In 1994, Michigan voters passed Proposal A, an amendment to change the property tax structure. What did this proposal do for most property tax payers? This greatly reduced the amount of property taxes most residents were paying. It also created the concept of taxable value. Taxable value is now what is used to calculate your tax bill. Taxable value was created using your 1995 assessed value and every year thereafter the rate of inflation has been applied for a small annual increase. However, if you purchased a home after 1995, the property would become "uncapped" and the following year, your taxable value is calculated as 50% of market value. Prior to Proposal A, taxes were calculated using the assessed value, which was 50% of market value. During the "real estate boom" this saved most taxpayers a lot of money. Even though real estate values were increasing for several years at 5% to 15% annually, the taxable value (what is used to calculate your tax bill) only increased at the rate of inflation or 5% whichever was less. Over time this has created a large gap in assessed and taxable values, if you have owned your home for several years; it is likely your assessed value is much higher than your taxable value.

It would be typical for a home that is worth \$150,000 to only pay taxes on a value of \$75,000-\$85,000. This would mean you would have an assessed value of \$75,000 and a taxable value approximately \$40,000.

So if your one time \$150,000 home is only worth \$135,000 today, why does my taxable value still increase?

Using the same example of the home valued yesterday at \$150,000 with the assessed value of \$75,000 and the taxable value around \$40,000, then assuming the assessment is lowered to \$67,500 to reflect the declining market. Until your taxable value catches up to your assessed value, you will still see your taxable value increase by inflation or 5% whichever is less. Once your taxable value equals your assessed value, then you would see a decrease in the taxable value as the market declines and therefore a decrease in your taxes.

The formula for taxable value cannot be changed; it is set by Michigan tax laws. Your local assessor or Board of Review cannot change this formula for calculating taxable value.

Joe Lavender, Equalization Director