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LANSING

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BULLETIN NO. 8 of 2010
UPDATE OF VARIOUS
POLICIES AND PROCEDURES
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TO: Assessor and Equalization Directors

FROM: State Tax Commission

SUBJECT: Update of Various STC Policies and Procedures

The purpose of this Bulletin is to provide an update regarding the proper procedures and policies for the following:

- **State Tax Commission (STC) Policy Regarding Splits**
- **Recalculating Taxable Value for Units Which Receive a County and/or State Equalization Factor More or Less than the Tentative Factor**
- **Changes to Taxable Value Which Shall Not be Made after the Board of Review has Adjourned**
- **Mistakes in Implementing the Cap**
- **Tax Roll and Tax Bill Contents**

1. State Tax Commission (STC) Policy Regarding Splits

The taxable values of splits and combinations shall not include the increased value attributable to the platting, splitting or combining of property. MCL 211.34d(1)(c)states:

> For taxes levied after 1994, additions do not include increased value attributable to any of the following:
> 1. platting, splits, or combination of property
> 2. change in the zoning of property.
> 3. for the purposes of the calculation of the millage reduction fraction under subsection (7) only, increased taxable value under section 27a(3) after a transfer of ownership of property.

MCL 211.27a(3) states that: "Upon a transfer of ownership of property after 1994, the property's taxable value for the calendar year following the year of the transfer is the property's state equalized valuation for the calendar year following the transfer."

There are several circumstances when the Taxable Value in the immediately preceding year's <u>assessment</u> <u>roll</u> is NOT the prior Taxable Value that will be used as the beginning point in the formula to calculate the Capped Value for the current year. For example, description splits, platting of subdivisions, and combinations of descriptions create new parcels which do not have

a Taxable Value for the prior year. The assessor must determine the Taxable Value for the prior year for the newly created parcels.

Therefore, for all platting, splitting and combinations of property after 1994 without a transfer of ownership the following procedures are to be followed:

The prior year's taxable value of the parent parcel must be apportioned to each of the new parcels so that the current years capped value, tentative taxable value and taxable value~~s~~ of each parcel can be calculated. **The sum of the prior taxable value for each parcel must equal the total prior taxable value of the parent parcel, from which the new parcels were created.**

The prior taxable value of each of the newly created parcels, as well as the remainder, if any, of the parent parcel is to be determined as follows:

First calculate the 2009 True Cash Value that each newly created parcel contributed to the "parent" parcel by dividing the 2009 True Cash Value of the newly created parcel by 2009 True Cash Value of the "parent" parcel. Next, take this fraction and multiply by the prior year's taxable value of the parent parcel. The product is the prior year's taxable value for each of the newly created parcels, including the remainder, if any, of the parent parcel.

> Note that the sum of the prior True Cash Values (TCV) of the child parcels must equal the prior TCV of the parent parcel.

Example 1: 2009 SEV of 40 acre parcel is $20,000. The assessor used $1,000 cash value per acre on each of the 40 acres to establish the assessed value as equalized.

In 2009, a one acre parcel is split from the original 40 acre parcel. The assessor continues to use $1,000 TCV on the remaining 39 acres, but appraises one acre building sites for $5,000 per acre.

Step1: Divide $1,000 (value of 1 acre for the "child" parcel in prior year) by $40,000 (value of entire parcel in prior year) = 0.025.

Step 2: Multiply prior taxable value by 0.025 and 0.975 (1.000-.025) to apportion prior taxable value to each of the newly created parcels.

Step 3:

Prior year taxable value $20,000 x 0.025 =	$500
Prior year taxable value $20,000 x 0.975 =	$19,500
Total	$20,000

Five Hundred ($500) Dollars is the prior year's taxable value of the 1 acre parcel for the current year's capped value calculation. The prior taxable value for the remainder of the parent parcel is $19,500 for the capped value calculation. The Inflation Rate (IF) used in the capped value calculation example is 1.026.

	2010 True Cash Value	**2010 Assessed Value**	**2009 Prior Taxable Value**	**IF**	**2010 Capped Value**	**2010 Taxable Value**
39 Acres	$39,000	$19,500	$19,500	1.026	$20,007	$19,500
1 Acre	$5,000	$2,500	$ 500	1.026	$ 513	$ 500

Example 2: 2009 TCV of a 40 acre parcel is $40,000 and the SEV is $20,000. The assessor priced the parcel as follows to establish the assessed value as equalized for 2009.

ACRES	$/ACRE	TRUE CASH VALUE	SEV & PRIOR TAXABLE VALUE
5 acres	@ $2,500	$12,500	
5 acres	@ $1,000	$ 5,000	
30 acres	@ $ 750	$22,500	
		$40,000	$20,000

For 2010, 4 new parcels were created as follows:

Parcel 1: A 2 ACRE PARCEL OF THE $2,500 LAND
Parcel 2: A 2 ACRE PARCEL OF THE $1,000 LAND
Parcel 3: A 1 ACRE PARCEL OF THE $ 750 LAND
Parcel 4: THE REMAINDER: 35 ACRES

The following is the calculation of the prior year's taxable value for each of the parcels for use in the capped value formula:

	TCV		Total	TCV % child x prior TCV		PRIOR YEAR'S Allocated TAXABLE VALUE
Parcel 1:	$ 5,000	/	$40,000	(0.12500) x $20,000	=	$ 2,500
Parcel 2:	$ 2,000	/	$40,000	(0.05000) x $20,000	=	$ 1,000
Parcel 3:	$ 750	/	$40,000	(0.01875) x $20,000	=	$ 375
Parcel 4:	$32,250	/	$40,000	(0.80625) x $20,000	=	$ 16,125
Total	$40,000					$ 20,000

To calculate the prior year's taxable value of each of the newly created parcels by any other method, such as using a different land value schedule than the schedule used to measure the prior true cash value of the parent parcel would be a violation of MCL 211.27(a)(2). Thus in the preceding example, establishing the prior taxable value based on a 10 acre parcel is not allowed.

If the split is the result of a transfer after December 31, 2009, then the parcel must not be split on the 2010 assessment roll because the split occurred after tax day. This split allocation method will be followed to determine taxable values for the 2011 assessment roll and to determine any courtesy split taxable values for the 2010 tax roll (pursuant to MCL 211.53(2)).

2. Recalculating Taxable Value for units which receive a County and/or State Equalization Factor that is More or Less than the Tentative Factor.

Except for 'transfers of ownership', Michigan Compiled Law (MCL) 211.27a states that for taxes levied in 1995 and for each year after 1995 the Taxable Value of property shall be the lesser of its State Equalized Value (SEV) or its Capped Value.

Since the final SEV is not known until the Fourth Monday in May (Final State Equalization), Taxable Value is tentative until then.

If a township or city receives a County or State Equalization factor which is more or less than the tentative factor used to calculate the tentative SEV, that township or city will be required to recalculate the Taxable Value (TV) of each parcel in the affected classification.

The taxable value of an individual parcel could change in this situation for one or both of the following reasons:

A) Since the 2010 Taxable Value is the lower of 2010 SEV or 2010 Capped Value, the Taxable Value of individual properties could change when the SEV, as finalized, is more or less than the tentative SEV.

EXAMPLE:

If the tentative 2010 SEV of a property that did not have any additions or losses was $50,000 and the 2010 Capped Value was $51,000, then the 2010 tentative Taxable Value would have been $50,000.

If the unit receives an equalization factor of 1.03, the 2010 SEV would increase from $50,000 to $51,500 and the final 2010 Taxable Value would be the Capped Value of $51,000 instead of the tentative SEV of $50,000.

B) When a unit receives a final equalization factor that is more or less than the tentative factor, the Capped Value of properties that have additions as defined in STC Bulletin No. 3 of 1995 will change.

This is true because (except for properties with previous IFT or poverty exemptions) the amount of additions is the SEV of the additions. Therefore, if a unit receives an equalization factor more or less than the factor used to calculate additions for the capped value formula as of the March Board of Review, the amount of these additions would change and the capped value must be changed.

EXAMPLE:

A garage with a 2010 tentative True Cash Value of $7,000 was added to a residential-classified parcel that had a 2009 SEV of $50,000. The amount of the addition for the garage was calculated to be $3,500 and the 2010 tentative equalization factor was 1.0000.

The 2010 Capped Value formula at Board of Review time would have been calculated as follows:

Capped Value = (2009 Final SEV – Losses) x 1.026 + Additions
= ($50,000 – Losses) x 1.026 + 3,500
= 50,000 x 1.026 + 3,500
= $54,800

If the residential classification received an equalization factor of 1.0500, the Capped Value would change because the $3,500 for the garage would no longer be the SEV but would need to be multiplied by 1.05:

Capped Value = (1994 Final SEV – Losses) x 1.026 + Additions
= ($50,000 – Losses) x 1.026 + (3,500 x 1.05)
= 50,000 x 1.026 + 3,675-
= $54,975

3. Changes to Taxable Value of Individual Properties which Shall Not be Made after the Board of Review has Adjourned

The assessor and/or the equalization department do NOT have the authority to change the assessed value, capped value, or taxable value of INDIVIDUAL properties after the Board of Review has adjourned. The only situations in which Capped Value and/or Taxable Value can be changed by the assessor after the March Board of Review has adjourned:

- results from an equalization factor, as previously discussed in paragraph 2,
- pursuant to an order from an entity with jurisdiction, or
- pursuant to a missed uncapping of taxable value where Form L-4260 was not timely filed.

Example:

An equalization department discovers that a $50,000 assessment increase for a new house built in 2009 was erroneously treated as a plus adjustment for equalization purposes rather than "equalization new" and no addition was used in the capped value formula for the new construction.

In this situation the equalization department has the duty to change the $50,000 from a "plus adjustment" to a "new" for equalization purposes. Assuming the Board of Review has adjourned, the equalization department and the assessor DO NOT have the authority to change the Capped Value on this individual property for the missing $50,000 addition. This change in the Capped Value and ultimately in the Taxable Value can be made only when there is authority such as section 211.154 (omitted property) or section 211.53b (qualified error).

For more information on section 154, see State Tax Commission Bulletin No. 3 of 1995, Bulletin No. 2 of 1996 and Bulletin No. 3 of 1997. For clarification on section 53b see *State Tax Commission* Bulletin No. 3 of 2010.

4. Mistakes in Implementing the Cap

If, prior to the adjournment of the Board of Review, the Equalization Department becomes aware of situations where an assessor or a Board of Review has not properly administered the cap, the Director should render whatever technical or other assistance is necessary to assist the assessor or the Board of Review to correct the situation. If these situations are discovered after the adjournment of the Board of Review, the State Tax Commission needs to be notified so the errors can be corrected.

An example might be a situation where a Board of Review has changed taxable values even though no changes were made to the assessed values or capped values.

5. Tax Roll and Tax Bill Contents

As stated in prior STC bulletins in addition to previously required information, starting in 1995, tax rolls and tax bills must contain Taxable Value and the percent of the value of each property which is exempt as a homestead or as qualified agricultural property. They also need a separate space for the 'state education tax' (STC Bulletin 6 of 1994). Both the tax roll and the tax bill shall contain the State Equalized Value of each property as required by MCL 211.34(2).

The STC recommends that the tax bill contain a note stating that property taxes are calculated on Taxable Value and that the SEV, which approximates 50% of Market Value, is included for comparative purposes.