STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

DATE: December 16, 2015

TO: Assessors
Equalization Directors

FROM: State Tax Commission

SUBJECT: Calculating Taxable Value for Personal Property

It has come to the attention of the State Tax Commission there may be uncertainty among assessors relating to the proper method of calculating taxable value for personal property.

Contrary to the belief of some, the principle that the taxable value of property cannot increase by more than the rate of inflation from one year to the next, as set forth in MCL 211.27a, applies to personal property as well as real property. However, the application of the capped value formula, as described in State Tax Commission Bulletin 3 of 1995, when applied to personal property, typically results in a capped value which is equal to or greater than the state equalized value, with the result that the current year's state equalized value will be the current year's taxable value as well.

In most cases, the taxable value of personal property should not be less than the state equalized value, for the reason that, when comparing the state equalized value of personal property in the current year with the taxable value in the prior assessment year, the result will be a decline in value from the prior year. This decline occurs because the recommended valuation procedures for most personal property result in a reduction in value from one year to the next year. If the assessor employs the State Tax Commission's recommended valuation procedures, then the only instance where the indicated state equalized value can be higher in the subsequent year is in the case of fluid pipelines reported on form 3589, which are valued using Table J on that form.

Other instances where the capped value might be lower than the state equalized value include the following:

1. Instances where a Michigan Tax Tribunal determination has resulted in a lowered taxable value in a prior year.

2. Instances where the assessor has inadvertently applied an incorrect valuation procedure in a prior year. In this regard, it should be noted that an incorrect taxable value caused by an incorrect taxpayer report is not inadvertent incorrect valuation. Advice on addressing incorrect taxpayer reporting is provided later in this communication.

3. Instances where an assessor has concluded that the State Tax Commission's recommended valuation procedures did not provide a correct indication of true cash value

4. The existence of a personal property equalization factor

5. Freestanding signs and billboards, if the assessor determines that the true cash value has increased from one year to the next by more than the rate of inflation.

6. Assets such as fine art, which are reported in section G of the personal property statement, Form 632, and which may appreciate in value. However, note that the decline in value of the balance of the personal property included in the parcel will frequently out-weigh any increase in value attributable to the appreciating personal property.

It should be noted that certain types of property which were once assessed as personal property, such as buildings and structures on leased land, including communications towers, are now assessed on the real property roll, with a separate real property assessment, pursuant to PA 415 of 2000, as amended. Such buildings and structures may experience an increasing value greater than the rate of inflation but they are valued using real property valuation procedures and are shown on the real property portion of the roll.

PROPER METHOD OF CALCULATING CAPPED VALUE FOR PERSONAL PROPERTY PARCELS

The proper method for calculating capped value for personal property is as follows:

Amount of Prior Year's Taxable Value	**Minus**	Prior Year's Taxable Value Attributable to Disposals	**Multiplied by**	One (1) plus the Rate of Inflation	**Plus**	Assessed Value of Additions (New Acquisitions)	**Equals**	Capped Value

Several specific observations should be made relating to the performance of this calculation:

1. The determination whether the capped value is lower than the state equalized value is made on a "whole parcel" basis (just as we would for a residential parcel where a structure is demolished [disposed of] or built [acquired]). Even if the personal property valued includes appreciating assets such as fine art, the increase in value attributable to that personal property may be offset by the decline in value of the other personal property being valued as part of the parcel.

2. Bulletin 1 of 2000 states that it is normally not necessary to calculated capped value for personal property unless an issue is noticed by the assessor, or the taxpayer brings an issue to the attention of the assessor. This statement is made for the reason that, for personal property, the taxable value and the state equalized value are normally the same. The assessor cannot reliably calculate a personal property capped value without an audit of the taxpayer's personal property. If an issue arises, the assessor must be given access to the taxpayer's records so that the assessor can identify the personal property that was present (and was assessed) for the prior year's roll, but which has been disposed of for the current year's roll. Further, the assessor must identify property not assessed last year (which might include not only new acquisitions, but also "move-ins" and personal property which was previously exempt or omitted from assessment) which must be treated as "capped value additions."

3. Those seeking more information on the subject should review State Tax Commission Bulletin 1 of 2000 (which discusses capped value for personal property at length) and State Tax Commission Bulletin 19 of 2002 (which discusses capped value "additions" and "losses" when estimating a personal property assessment). The State Tax Commission also strongly suggests that every assessor, as a standard "error check" procedure should carefully analyze any situation where there is a difference between the state equalized value and the capped value indication for personal property. Such differences are nearly always due to the assessor having made an error.

4. As a final observation, the State Tax Commission has learned of instances where, after the settlement (or other resolution) of a MTT personal property case, the subsequent years' taxable values have been incorrectly calculated, arising from a failure by the assessor to correctly identify capped value "additions" and "losses." Pursuant to MCL 211.34d(1)(h)(i), it is clear that for personal property which has been removed or destroyed, the Taxable Value is adjusted proportionally downward, based on the true cash value (market value) contribution of the

removed or destroyed item when compared to the total true cash value of the parcel. However, although the Taxable Value is adjusted proportionally, the numerator in the proportional calculation is the market (true cash value) contribution made by personal property which has been removed from service. If the personal property which has been removed from service exhibits such inutility that it contributed little or nothing the true cash value at the time it was taken out of service, then the change made to the taxable value may be minimal. Assessors are reminded that, after a determination by the Tax Tribunal that the value of the personal property was less than that which was indicated by the usual personal property valuation procedures, the calculation of capped value "losses" cannot simply be based on the assumption that the items taken out of service suffered no greater (or lesser) impairment in value than the items which are continuing in service. Further, all newly acquired personal property, all personal property moved from another jurisdiction and all personal property which was not assessed in the previous assessment, is treated as an "addition" in the capped value formula.

CONSTRUCTION IN PROGRESS

The reporting of Construction in Progress relating to personal property creates special challenges in calculating capped value. Assessors are reminded that Construction in Progress represents personal property which is not yet in service, similar to a partially constructed structure. When Construction in Progress is placed in service it must be reported in the assessment year that it is placed in service, not the year that the expense of acquisition was incurred. Under no circumstances is a capped value loss entered in the capped value formula when personal property which was formerly Construction in Progress is placed in service. Instead, the capped value "addition" in the subsequent year is reduced by the state equalized value amount previously recognized as Construction in Progress. An example follows. This example involves a hypothetical gas transmission pipeline where an additional pipeline has been built along an existing pipeline right-of-way.

A. The 2011 SEV on the hypothetical parcel is 1,100,000 and the 2011 TV is 400,000.

B. The 2012 SEV and TV on the parcel is computed as follows:

Acquisition Yr.	Reported Cost	Valuation Multiplier	Indicated TCV	
2005	50,000	1.05	52,500	
2000	40,000	1.14	45,600	
1999	1,800,000	1.16	2,088,000	
Right-of-Way	80,000	1.00	80,000	
TOTALS	1,970,000		2,266,100	TCV

The 2012 SEV is 1,133,050 (2,266,100 TCV divided by 2)

The Capped Value is 410,800

400,000 (2011 TV), minus losses of 0, multiplied by 1.027 (the 2012 Inflation rate) plus additions of 0 = 410,800.

The **2012 Taxable value is 410,800** (the lower of the SEV and the Capped Value)

C. The 2013 SEV and TV on the parcel is computed as follows:

Acquisition Yr.	Reported Cost	Valuation Multiplier	Indicated TCV	
Const. in Progress	3,500,000	0.50	1,750,000	
2005	50,000	1.06	53,000	
2000	40,000	1.16	46,400	
1999	1,800,000	1.18	2,124,000	
Right-of-Way	80,000	1.00	80,000	
TOTALS	5,470,000		4,053,400	TCV

The 2013 SEV is 2,026,700 (4,053,400 TCV divided by 2)

The Capped Value is 1,295,659

410,800 (2012 TV), minus losses of 0, multiplied by 1.024 (the 2013 Inflation rate) plus additions of 875,000 (1,750,000 divided by 2) = 1,295,659.

The **2013 Taxable value is 1,295,659** (the lower of the SEV and the Capped Value)

D. The 2014 SEV and TV on the parcel is computed as follows:

Acquisition Yr.	Reported Cost	Valuation Multiplier	Indicated TCV	
2013	11,800,000	0.99	11,682,000	
2005	50,000	1.08	54,000	
2000	40,000	1.18	47,200	
1999	1,800,000	1.20	2,160,000	
Right-of-Way	80,000	1.00	80,000	
TOTALS	13,770,000		14,023,200	TCV

The 2014 SEV is 7,011,600 (14,023,200 TCV divided by 2)

The **Capped Value is 6,282,389**

(Additions are 5,841,000 (one-half of 11,682,000) – 875,000 (amount taken in 2013 as C in P Additions) = 4,966,000)

1,295,659 (2013 TV), minus losses of 0, multiplied by 1.016 (the 2014 Inflation rate) plus additions of 4,966,000 (net 2013 "new construction" contribution after deducting TV contribution of C in P in 2013) = 6,282,389.

The **2014 Taxable value is 6,282,389** (the lower of the SEV and the Capped Value)

E. The 2015 SEV and TV on the parcel is computed as follows:

Acquisition Yr.	Reported Cost	Valuation Multiplier	Indicated TCV	
Const. in Progress	750,000	.50	375,000	
2013	11,800,000	1.00	11,800,000	
2005	50,000	1.10	55,000	
2000	40,000	1.20	48.000	
1999	1,800,000	1.20	2,160,000	
Right-of-Way	80,000	1.00	80,000	
TOTALS	14,520,000		14,518,000	TCV

The 2015 SEV is 7,259,000 (14,518,000 TCV divided by 2)

The **Capped Value is 6,570,407**
6,282,389 (2014 TV), minus losses of 0, multiplied by 1.016 (the 2015 Inflation rate) plus additions of 187,500 (C in P) = 6,570,407.

The **2015 Taxable value is 6,570,407** (the lower of the SEV and the Capped Value)

CORRECTION OF ERRORS RELATING TO THE CALCULATION OF PERSONAL PROPERTY TAXABLE VALUE

If an assessor discovers that the taxable value of a personal property parcel is incorrect, then he or she should make a correction, when possible. The proper method for addressing the error will depend on the circumstances.

1. If the assessor determines that a capped value addition which has been entered is erroneous arising from the fact that he or she applied an incorrect valuation methodology, and the capped value addition amount entered is consistent with the amount of the market-value increase he or she entered, then the incorrect taxable value is the result of a valuation decision which is not subject to correction. Instead, the assessor must annually determine the state equalized value using correct valuation procedures and must calculate the capped value assuming no "additions" or "losses" attributable to the mistaken valuation methodology. The current year's taxable value will be the lesser of the state equalized value and the capped value.

2. If the erroneous taxable value is due to the taxpayer's incorrect reporting on its personal property statement, or is due to the failure of the assessor to enter a "capped value addition" in any amount under circumstance where the recognition of a capped value addition was justified, then the State Tax Commission has jurisdiction, pursuant to MCL 211.154, to change the taxable value to correct the incorrect report or to add omitted taxable value (while at the same time adding the additional contribution to the state equalized value). This correction may be made for the current year and for the two immediately preceding assessment years. Examples of incorrect reporting include reporting gas pipeline system assets in Section B on form L-4175 rather than is Section J of form 3589 and reporting machinery and equipment in Section D of form L-4175 rather than in Section B of that form.

3. If the taxpayer reported correctly on its personal property statement, and the assessor correctly valued the property but failed to properly apply the capped value formula, or failed to uncap the taxable value after a transfer of ownership, then the March Board of Review in the year after discovery of the error has the jurisdiction to correct the taxable value so that the taxable value conforms to the requirements of the law. This correction is made on a prospective basis only, beginning in the assessment year that the March Board of Review is acting. This authority is reserved to the March Board of Review itself and may not be exercised by the assessor. Therefore, the State Tax Commission recommends that the matter should be addressed at the organizational meeting of the Board, based on the recommendation of the assessor, and that the Board should notify the taxpayer of its action and afford the taxpayer an opportunity to be heard prior to the close of the Board. Such notice must be provided by the best means practical but a 14 day notice is not required.