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GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

DATE: March 1, 2005

TO: County Equalization Directors

FROM: Harold Anderson, Manager
Local Assessment Review Section

RE: 2005 STATE TAX COMMISSION FORMS L-4025, L-4025 SEV, L-4028, L-4028IC

Copies of the 2005 STC forms L-4025, L-4025 SEV, L-4028, & L-4028IC are available on the Treasury Department Web site by clicking on the form number. The information on these completed forms is necessary to calculate the 2005 millage rollback fraction under Michigan Compiled Law (MCL) 211.34d ("Headlee").

This memo is being sent electronically to everyone who receives bulletins. Please print off a supply of forms L-4025 for all assessment units in your county which may not receive bulletins electronically. Please distribute the forms to the certified assessor of each assessing unit so that you will obtain the required report from all the units.

It is important to note the special instructions starting on page 7 regarding the calculation of the "Headlee" and "Truth In Taxation" rollbacks for the NON-HOMESTEAD AND NON-QUALIFIED AGRICULTURAL group of properties for local school districts.

NOTE: While the term Homestead Exemption has been changed to Homeowner's Principal Residence Exemption, the term Non-Homestead will continue to be used rather than using the term Non-Homeowner's Principal Residence.

A bulletin regarding the 2005 millage rollback procedures for MCL 211.34d (Headlee) rollback fractions, Truth in Taxation rollbacks under MCL 211.24e, Truth in Assessment under MCL 211.34, Truth in County Equalization under MCL 211.34, and the "Counties only" rollbacks based on the convention facilities and cigarette tax collections will be forwarded to you as soon as it is available. That bulletin will include forms L-4034 and L-4029.

Note: The State Tax Commission has certified the inflation rate multiplier to be used for 2005 "Headlee" calculations as 1.023.

Copies of completed STC forms L-4028 and L-4028IC are required to be submitted to the State Tax Commission. Copies of STC forms L-4025 & L-4025 SEV should be kept on file in your office.

IMPORTANT NOTE: Please also see STC Bulletin 19 of 2002 for information regarding a new system for determining ADDITIONS and LOSSES used in the calculation of the "Headlee" Millage Rollback and the Truth in Taxation Rollback for **Personal Property**. This new system is **MANDATORY IN 2005**.

INSTRUCTIONS FOR FORM L-4025 (AND L-4025 SEV)

It is important to note the special instructions starting on page 7 regarding the calculation of the "Headlee" and "Truth In Taxation" rollbacks for the NON-HOMESTEAD AND NON-QUALIFIED AGRICULTURAL GROUP of properties for local school districts (Please Read Carefully)

STC Form L-4025 is the form used by assessors to report the Taxable Values used in the calculation of the millage rollbacks required by MCL 211.34d ("Headlee") and by MCL 211.24e ("Truth in Taxation").

The assessing officer shall report the following, BY CLASS, for each taxing jurisdiction which levies a property tax in his/her city or township:

1. Total 2004 Taxable Value
2. Taxable Value of LOSSES
3. Taxable Value of ADDITIONS
4. Total 2005 Taxable Value

An analysis of each assessment is required to arrive at an accurate tabulation of Taxable Values of LOSSES and Taxable Values of ADDITIONS, as defined in P.A. 476 of 1996.

FOR REAL AND PERSONAL PROPERTY: (Prepare one form L-4025 for each classification.)

Important Note: The long-standing procedure for calculating the "Headlee" Millage Reduction Fraction for most PERSONAL PROPERTY has changed. This old procedure stated that all changes in taxable value were to be treated as either additions or losses. This procedure NO LONGER APPLIES. Please see STC Bulletin 19 of 2002 for a new system which is mandatory in 2005.

ANNEXTIONS: Please see the special instructions regarding annexations contained in the memo to assessors and equalization directors from Harold Anderson dated February 28, 2002.

ADDITIONS: ADDITIONS for calculating "Headlee" Millage Rollbacks under MCL 211.34d are defined in P.A. 476 of 1996 and are explained in STC Bulletin No. 3 of 1995 including its Supplements. **Please also see paragraph G of STC Bulletin 15 of 2002 which addresses the fact that the State Supreme Court has ruled that an increase in a property's occupancy rate is not a legal ADDITION.** Please note that the definitions of ADDITIONS herein apply to the calculation of millage rollbacks under MCL 211.34d ("Headlee") and MCL 211.24e ("Truth in Taxation"). Please note that certain ADDITIONS for rollback calculations are not ADDITIONS for Capped Valuation calculations. For more information, please see page 16 of STC Bulletin No. 2 of 1996.

IMPORTANT REMINDER: THE TAXABLE VALUES OF SOME ADDITIONS ARE REQUIRED TO BE AT 50% OF TRUE CASH VALUE AND SOME MAY BE LESS THAN 50%. The formulas for calculating some ADDITIONS have changed starting in 1997. Please see STC Bulletin No. 3 of 1997 for more information.

The following are ADDITIONS for millage rollback calculations:

1. Omitted real property (ADDITION may be less than 50% of True Cash Value).
2. Omitted personal property (ADDITION usually 50% of TCV).
3. New Construction (ADDITION at 50% of True Cash Value).
4. Previously exempt property, but not Poverty or IFT Exemptions (ADDITION at 50% of TCV).

5. Previously exempt property due to Poverty or IFT Exemptions (ADDITION may be less than 50% of TCV).
6. Replacement construction (ADDITION may be less than 50% of TCV).
7. Remediation of environmental contamination (ADDITION may be less than 50% of TCV).
8. Public Services (for real property only).(ADDITION at 50% of True Cash Value).

NOTE: The following are NOT ADDITIONS for millage rollback calculations:

1. "Uncapped" Taxable Value

An increase in Taxable Value caused by the "uncapping" of Taxable Value in the year following a "Transfer of Ownership" is not an ADDITION.

2. Platting, Splits, or Combinations

An increase in the value of a parcel attributable to platting, splits, or combinations of parcels is not an ADDITION. It is only when these increases in value are accompanied by a physical change in the property or by public services (see number 8 above), that there is likely to be an ADDITION. If so, the ADDITION must fit one or more of the 8 categories of ADDITIONS listed above.

3. Zoning Change

An increase in the value of a parcel attributable to a change in zoning is not an ADDITION.

4. Inflation

An increase in the value of a parcel due to inflation is not an ADDITION as defined by P.A. 476 of 1996. For example, increased land value because of inflation is not an ADDITION for "Headlee" or "Truth in Taxation" purposes (although inflationary increases may be "new" for equalization purposes if the class was not studied by the equalization department.)

5. Economic Conditions

An increase in value due to an improvement in economic conditions is not an ADDITION.

SPECIAL INSTRUCTIONS FOR FORM L-4025 SEV ADDITIONS

(This form is still needed for units that receive an equalization factor greater or lesser than 1.0000 for 2005 because sometimes the Taxable Value of an ADDITION is the same as the SEV)

FOLLOWING ARE SOME SPECIAL INSTRUCTIONS FOR REPORTING ADDITIONS FOR A TOWNSHIP OR CITY THAT WAS NOT EQUALIZED AS ASSESSED IN 2005. A city or township is equalized as assessed when the assessed value of a separately equalized classification of property exactly equals the unit's State Equalized Valuation for the class. If the assessor reports ADDITIONS based on the assessed value of those ADDITIONS (on Form L-4025) which ARE required to be at 50% of true cash value and then receives an equalization factor greater or lesser than 1.0000, it is necessary to report the ADDITIONS based on the SEV of those ADDITIONS on Form L-4025 SEV. The Taxable Value of ADDITIONS which are NOT required to be at 50% of True Cash Value must also be reported on Form L-4025 SEV but shall NOT be factored up or down on the Form L-4025 SEV.

There are three types of ADDITIONS which shall be at 50% of true cash value. These are referenced on page 3 of these instructions and are described in detail in STC Bulletin No. 3 of 1995 including its Supplements.

LOSSES: LOSSES for calculating "Headlee" Millage Rollbacks under MCL 211.34d are defined in P.A. 476 of 1996 and are explained in STC Bulletin No. 3 of 1995. Please note that the definitions of LOSSES herein apply to the calculation of millage rollbacks under MCL 211.34d ("Headlee") and MCL 211.24e ("Truth in Taxation"). Please note that certain LOSSES for rollback calculations are not LOSSES for Capped Value calculations. For more information, please see page 16 of STC Bulletin No. 2 of 1996.

IMPORTANT REMINDER: THE TAXABLE VALUE OF SOME LOSSES MAY CALCULATE OUT TO BE 50% OF THE PRIOR YEAR'S TRUE CASH VALUE AND SOME MAY BE LESS THAN 50%.

The following are LOSSES for millage rollback calculations:

1. Property destroyed or removed (may be less than 50% of TCV).
2. Property assessable last year but exempt this year (may be less than 50% of TCV)
3. Decrease in value due to a decrease in occupancy rate (may be less than 50% of TCV)
4. Decrease in value due to environmental contamination (may be less than 50% of TCV)

NOTE: The following are NOT LOSSES for millage rollback calculations:

1. Platting, Splits, or Combinations

A decrease in the value of a parcel attributable to platting, splits, or combinations of parcels is not a LOSS.

2. Zoning Change

A decrease in the value of a parcel attributable to a change in zoning is not a LOSS.

3. Deflation

A decrease in the value of a parcel due to deflation is not a LOSS.

4. Economic Conditions

A decrease in the value of a parcel due to worsening economic conditions is not a LOSS.

SPECIAL INSTRUCTIONS FOR FORM L-4025 SEV LOSSES (This form is still needed for units that received an equalization factor greater or lesser than 1.0000 for 2004 because sometimes the Taxable Value of a LOSS is the same as the SEV.)

FOLLOWING ARE SOME SPECIAL INSTRUCTIONS FOR REPORTING LOSSES FOR A TOWNSHIP OR CITY THAT WAS NOT EQUALIZED AS ASSESSED IN 2004. A city or township is equalized as assessed when the assessed value of a separately equalized classification of property exactly equals the unit's State Equalized Valuation for the class. If the assessor reports the LOSSES based on the assessed value (on Form L-4025) of those LOSSES which ARE required to be at 50% of the prior year's true cash value and received an equalization factor greater or lesser than 1.0000 in the prior year, it is necessary to report the prior year's LOSSES based on the SEV of those LOSSES on Form L-4025 SEV. The Taxable Value of LOSSES which are NOT required to be at 50% of the prior year's True Cash Value must be reported on Form L-4025 SEV but shall NOT be factored up or down on the Form L-4025 SEV.

NOTE - The Taxable Valuations reported on form L-4025 and L-4025 SEV (when needed) will provide the information needed to determine the "Headlee" and "Truth in Taxation" millage rollbacks.

DO NOT REPORT ON THIS FORM THE PLUS OR MINUS ADJUSTMENTS RECORDED ON STC FORM L-4022

INSTRUCTIONS FOR LOCAL SCHOOL DISTRICTS (These instructions do NOT apply to Intermediate School Districts and Community Colleges.)

"Headlee" and "Truth in Taxation" roll back fractions shall be separately calculated for 2 categories of properties for local school districts under certain circumstances (See the chart that follows). The first category consists of NON-HOMESTEAD AND NON-QUALIFIED AGRICULTURAL PROPERTIES. Except in rare circumstances (see the chart that follows), it will always be necessary to calculate the rollback fractions for the category of NON-HOMESTEAD AND NON-QUALIFIED AGRICULTURAL PROPERTIES. These are the properties which DO NOT qualify for the Homeowner's Principal Residence or Qualified Agricultural Property Exemptions from the 18 mills of LOCAL school operating tax. The second category is ALL PROPERTIES IN THE LOCAL SCHOOL DISTRICT. It will also frequently be necessary to calculate the rollback fractions for ALL PROPERTIES IN THE LOCAL SCHOOL DISTRICT.

The first column in the chart below names several types of tax millages which a LOCAL school district may levy. The second column indicates whether the levy is made against ALL PROPERTIES IN THE LOCAL SCHOOL DISTRICT or against only NON-HOMESTEAD AND NON-QUALIFIED AGRICULTURAL PROPERTIES IN THE LOCAL SCHOOL DISTRICT.

| Type of Millage Levied by Local School District | Properties Against Which the Millages are Levied |
|---|--|
| Supplemental (Hold Harmless) Millage | ALL PROPERTIES IN THE LOCAL SCHOOL DISTRICT |
| Up to 18 mills of operating millage when there is no supplemental (Hold Harmless) millage levied or when there is less than 18 mills of supplemental (Hold Harmless) millage levied | NON-HOMESTEAD AND NON-QUALIFIED AGRICULTURAL PROPERTIES IN THE LOCAL SCHOOL DISTRICT |
| Millage levied under MCL 380.1212 for the purpose of creating a building and site sinking fund. This levy is subject to the "Headlee" rollback but NOT the "Truth in Taxation" rollback | ALL PROPERTIES IN THE LOCAL SCHOOL DISTRICT |
| Millage levied for operating a community college under Part 25 of the School Code of 1976. | ALL PROPERTIES IN THE LOCAL SCHOOL DISTRICT |
| Certain millages levied for the operation of a library. Please see MCL 380.1211(8)(f)(iv and v) for details | ALL PROPERTIES IN THE LOCAL SCHOOL DISTRICT |
| Certain taxes levied for operation of a community swimming pool. Please see MCL 380.1211(8)(f)(vi) for details. | ALL PROPERTIES IN THE LOCAL SCHOOL DISTRICT |

IMPORTANT NOTE: Starting in 1997, the LOCAL school district is no longer authorized to levy an Enhancement Millage of up to 3 mills. MCL 380.705 provides that, starting in 1997, the enhancement millage may be levied by the INTERMEDIATE school district if approved by the voters of the intermediate school district.

If a LOCAL school district levies one of the millages listed in the chart above against ALL PROPERTIES IN THE LOCAL SCHOOL DISTRICT, then the assessor is required to provide the information required by STC Form L-4025 (and L-4025 SEV when necessary) for the group consisting of ALL PROPERTIES IN THE LOCAL SCHOOL DISTRICT.

If a LOCAL school district levies one of the millages listed in the chart above against the NON-HOMESTEAD AND NON-QUALIFIED AGRICULTURAL properties in the LOCAL school district, then the assessor is required to provide the information required by STC Form L-4025 (and L-4025 SEV when necessary) for the group consisting of NON-HOMESTEAD AND NON-QUALIFIED AGRICULTURAL properties in the LOCAL school district. There are special instructions below that must be followed when it is necessary to provide information about the NON-HOMESTEAD AND NON-QUALIFIED AGRICULTURAL group of properties.

METHOD OF CALCULATING THE "HEADLEE" AND TRUTH IN TAXATION MILLAGE ROLLBACK FRACTIONS FOR THE NON-HOMESTEAD AND NON-QUALIFIED AGRICULTURAL GROUP OF PROPERTIES THAT SHALL BE USED FOR 2005

Because of the difficulty experienced by assessors and computer companies in tracking properties which came into or left the NON-HOMESTEAD AND NON-QUALIFIED AGRICULTURAL group of properties during the prior year, the State Tax Commission has adopted the following method of calculating the millage rollback for the NON-HOMESTEAD AND NON-QUALIFIED AGRICULTURAL group of properties.

This method shall be used in 2005.

- 1) Pick a date after the close of the 2005 March Board of Review but before the First Monday in May of 2005 as the status day for determining which properties are part of the NON-HOMESTEAD AND NON-QUALIFIED AGRICULTURAL group for 2005. **DO NOT include within this group any properties which have a partial or a total Homeowner's Principal Residence or Qualified Agricultural Property Exemption as of the status day picked.**
- 2) Total the 2005 Taxable Valuations of the properties in this group.
- 3) Total the 2004 Taxable Valuations of THESE SAME properties (from step 2) regardless of their 2004 Homestead status.
- 4) Total the "usual" Losses and Additions for THESE SAME properties. The "usual" Losses and Additions are the Losses and Additions discussed on pages 2 through 4 of the Instructions for Form L-4025 (such as new construction or a building burning down). DO NOT include, in the total, Losses and Additions due to properties moving in and out of the NON-HOMESTEAD AND NON-QUALIFIED AGRICULTURAL group.
- 5) Calculate the rollback fractions using these numbers.

EXAMPLE:

If there were 1000 properties in the NON-HOMESTEAD AND NON-QUALIFIED AGRICULTURAL group of properties in 2004 but there were only 950 properties in the group as of the date picked for 2005:

- 1) Total the 2005 Taxable Valuations of the 950 properties.
- 2) Total the 2004 Taxable Valuations of the SAME 950 properties.
- 3) Total the "usual" Losses and Additions applicable to the SAME 950 properties. DO NOT include Losses and Additions attributable to properties moving in and out of the group since the Fourth Monday in May of 2004.
- 4) Calculate the millage rollbacks using the Taxable Values (found in steps 1 through 3) attributable to the SAME 950 properties.

The method outlined in the five steps on page 7 shall NOT be used when calculating the millage rollback fractions applied against those millages levied by local school districts on ALL PROPERTIES in the local school district. The method outlined in the five steps on page 7 shall be used when calculating the millage rollback fractions which apply to millages levied by a LOCAL school district against the NON-HOMESTEAD AND NON-QUALIFIED AGRICULTURAL properties in the LOCAL school district.

Note Regarding Annexations:

Occasionally, a local school district will gain parcels through an annexation. No special recognition of parcels that were annexed in 2004 is required for this calculation. Include the annexed parcels that are in the NON-HOMESTEAD AND NON-QUALIFIED AGRICULTURAL group for 2005 in each of the totals (2005 TV, 2004 TV, Additions & Losses) for the rollback calculation. Notice that the 2004 TV is included, even though it was not in this taxing jurisdiction last year.

Of course, parcels that were annexed out of this taxing jurisdiction need no recognition because they are not included in the 2005 totals. Caution: If you report a zero taxable value for 2005 for NON-HOMESTEAD AND NON-QUALIFIED AGRICULTURAL parcels that were annexed out of your taxing jurisdiction, make sure that the losses are not included in the totals for this calculation.