State Tax Commission Bulletin No. 17 of 1995
November 8, 1995
Normal Repairs, Replacement and Maintenance

TO: ALL ASSESSING OFFICERS
FROM: STATE TAX COMMISSION (STC)

RE: **NON-CONSIDERATION OF THE TRUE CASH VALUE OF NORMAL REPAIRS, REPLACEMENTS, AND MAINTENANCE FOR RESIDENTIAL PROPERTY**

This bulletin replaces STC Bulletin No. 3 of 1990 which also addressed the non-consideration (exemption from property tax assessment) of the true cash value of normal repairs, replacement and maintenance of residential property as provided by Michigan Compiled Law (MCL) 211.27(2), as amended.

A) Exemption Provided by MCL 211.27(2) Applies to Residential Property Only.

The exemption provided by MCL 211.27(2) applies to RESIDENTIAL property only. Residential property is property USED for residential purposes. Residential property may include property which is not classified residential as provided by MCL 211.34c. For example, a home located on a property classified agricultural would still be residential property for the purpose of the nonconsideration (exemption) of the true cash value of normal repairs, replacements, and maintenance. Residential property includes attached and detached garages but not farm outbuildings such as barns, storage buildings, etc.

Residential property is not limited to owner-occupied properties. Rental properties having more than 4 rental units are considered to be commercial properties and would not qualify for this exemption.

B) Change in Law Made by Act No. 415 of 1994. Exemption No longer Limited to Value of Normal Repairs, Replacement, and Maintenance Made Only After 12-30-76.

Act No. 415 of 1994 made a significant change to the provisions of MCL 211.27(2).

PRIOR TO PA 415 of 1994, the nonconsideration of the true cash value of normal repairs, replacement, and maintenance applied only to qualifying changes made by the present owner AFTER DECEMBER 30, 1976.

STARTING IN 1995, the nonconsideration of the true cash value of normal repairs, replacement and maintenance applies to qualifying changes made by the present owner AT ANY TIME while he/she owned the property.

C) Implementing the Exemption - STC Form L-4293.

Attached to this bulletin is a revised copy of STC form L-4293. A supply of form L-4293's should be kept on hand by the assessor and made available to property owners. The STC advises that requests for the exemption of the true cash value of normal repairs, replacements, and maintenance must be in writing so that they can be reviewed by the board of review, the county equalization department, the STC, and the Tax Tribunal. Completed form L-4293's must be kept on file by the assessor. The assessor is advised to review form L-4293 including the instructions on the back of the form which include a copy of MCL 211.27(2).

The itemized repairs, replacement, and maintenance, which may qualify for exemption are listed on the front of form L-4293 as items (a) through (o). These items shall NOT be considered for exemption when they are part of a structural ADDITION OR COMPLETION. It would not be unusual that a structural addition which does not qualify for exemption is added to a residence at the same time as qualifying normal repairs, replacements,and maintenance are occurring in another part of the same residence.

Assessing officers are advised to appraise the property before and after qualifying normal repairs, replacement, and maintenance. The difference between the before and after appraisals is the exemption amount which is to be listed in the assessment roll with the designation, "MCL 211.27(2) Nonconsideration Value."

The assessor SHALL NOT subtract the actual cost of expenditures from the "after appraisal,"because the TRUE CASH VALUE of normal repairs, replacements and maintenance is exempt, NOT THE COST of these items. In other words, cost does not always equal value.

The "before appraisal" is not affected by the items of normal repair, replacement and maintenance. Therefore, the assessor SHALL NOT change the construction quality classification, the effective age, and the economic condition factor from what was proper PRIOR to the repairs, replacements and maintenance.

The "after appraisal" shall be based on the actual quality classification and effective age that exist after the repairs, replacements and maintenance have been made. The quality classification and the effective age for the "after appraisal" are frequently different from those of the "before appraisal."

D) Calculating New and Loss for Assessment and Equalization Purposes

If the repairs, replacement and/or maintenance were performed in the year immediately preceding the current assessment year, they would not be included in the prior year's assessed value (because they haven't had a chance to be included yet) and an assessment REDUCTION for the exemption from the prior year shall NOT be made. Likewise, there would not be a loss for equalization purposes.

If the repairs, replacement and/or maintenance were performed over many years in the past and a first time request for nonconsideration is now being made for the current assessment year, an assessment reduction from the prior year shall be made assuming that the value of the exempt items was included in the prior year's assessed value. In this situation there would be a loss for equalization purposes. The amount of the loss is based on the True Cash Value of the exempt items included in the prior year's assessed value.

The exemption for normal repairs, replacements and maintenance ends in the year after the owner who made the repairs, replacements and maintenance sells the property. In the year following a sale, the assessed value shall be based on the true cash value of the entire property.

The amount of assessment increase attributable to the value of formerly exempt property returning to the assessment roll is new for equalization purposes.

E) Calculating Additions and Losses for Capped Value, Taxable Value, "Headlee" Millage Reduction, and Truth in Taxation Purposes.

In the year in which the true cash value of normal repairs, replacement, and maintenance is first exempt from taxation, a loss shall be deducted in the capped value formula ONLY if the value of the exempt normal repairs, replacement and maintenance was included in the prior year's taxable value.

If the repairs, replacement and/or maintenance were performed in the immediately preceding year, they would not be part of the prior year's taxable value (because they haven't had a chance to be included yet) and a loss in the capped value formula SHALL NOT be made. Likewise, since the value of normal repairs, replacement and maintenance is exempt, these repairs, etc., would not be included as an addition in the capped value formula for the current year.

If the repairs, replacement and/or maintenance were performed over many years in the past and a first time request for nonconsideration is now being made, a loss shall be deducted in the current year's capped value formula assuming that the value of the exempt items was included in the prior year's taxable value.

The amount of the loss in the capped value formula for the current year is calculated as follows:

$$\text{Loss} = \text{TCV of the Exempt Portion of the Property in the Prior Year} \times \frac{\text{Taxable Value of the entire property in the prior year}}{\text{TCV of the entire property in the prior year.}}$$

The amount of the loss for the capped value formula is the same as the loss used for calculating the "Headlee" Millage Reduction Fraction and the Truth in Taxation Base Tax Rate Fraction.

The exemption for normal repairs, replacements and maintenance ends in the year after the owner who made the repairs, replacements and maintenance sells the property. In the year following the sale, the taxable value of the property shall be the SEV of the property, assuming that the sale is a "transfer of ownership" as defined in MCL 211.27a. "Transfers of ownership" are discussed in detail in STC Bulletin #16 of 1995.

In the year following a sale, when the value of normal repairs, replacement and maintenance made by the seller returns to the assessment roll, an addition shall be calculated. The amount of the addition shall be 50% of the true cash value of the previously exempt property.

QUICK REFERENCE
FOR STC BULLETIN NO. 17 OF 1995
(For More Detail, Read Bulletin No. 17 in its Entirety)

A) MCL 211.27(2) provides a property tax exemption for the true cash value of normal repairs, replacement, and maintenance."

1) This exemption applies to RESIDENTIAL property only, but the property is NOT required to be classified residential.

2) This exemption does NOT apply to a structural addition or completion.

3) This exemption applies to the normal repairs, replacement and maintenance performed AT ANY TIME by the present owner. Prior to PA 415 of 1994, the exemption applied only to normal repairs, replacement, and maintenance made after December 30, 1976.

4) This exemption ends for the current owner in the year after the current owner sells the property.

B) Processing the Exemption

1) The STC advises that requests for this exemption to the assessor must be in writing. Form L-4293 is provided for that purpose.

2) The assessor is advised to make a "before" and "after" appraisal and the difference between the two is the true cash value of the amount to be exempted.

The "before appraisal" is not affected by the items of normal repair, replacement and maintenance. Therefore, the assessor SHALL NOT change the construction quality classification, the effective age, and the economic condition factor from what was proper PRIOR to the repairs, replacements and maintenance.

The "after appraisal" shall be based on the actual quality classification and effective age that exist after the repairs, replacements and maintenance have been made. The quality classification and the effective age for the "after appraisal" are frequently different from those of the "before appraisal."

3) The TRUE CASH VALUE of normal repairs, replacements, and maintenance is exempt, NOT THE COST of these items. In other words, cost does not always equal value.

4) A loss must be deducted in the current year's CAPPED VALUE formula if the value of the exempt normal repairs, replacement, and maintenance was included in the prior year's taxable value.