State Tax Commission Bulletin No. 5 of 1996
January 29, 1996
Appeal Procedures

Type of Appeal	Board of Review	Treasury	Tax Commission	Tribunal
1996 Assessed Value and/or Tentative Taxable Value	March 1996*	NO Review Authority	NO Review Authority	June 30, 1996 in Writing
1996 Poverty Exemptions Under MCL 211.7u	March 1996* OR July or Dec 1996*	No Review Authority No Review Authority	No Review Authority No Review Authority	June 30, 1996 in Writing Within 30 Days of Denial
1996 Assessment Classification	March 1996*	No Review Authority	Within 30 days - after close of Board of Review	No Review Authority
Denial by Assessor of Homestead Exemption for 1996	No Review Authority	Within 35 days of denial by assessor	No Review Authority	Within 35 days of decision by Treasury Dept.
Homestead Exemption which was Not on the 1995 Tax Roll and/or the 1996 Tax Roll	July or Dec., 1996 for 1995 and/or 1996 Exemption*	Within 35 days of Board of Review Action	NO Review Authority	Within 35 days of decision by Treasury Dept.
Denial by Assessor of Continuation of 1995 Qualified Agric. Prop. Exempt. from '95 to '96	March 1996*	NO Review Authority	NO Review Authority	June 30, 1996 in Writing
Denial by Assessor of Qualified Agric. Prop. Exemption for 1996	July or Dec., 1996 for 1996 Exemption Only*	NO Review Authority	NO Review Authority	Within 30 days of Board of Review Action
Qualified Agric. Prop. Exemption which was Not on the 1995 Tax Roll and/or the 1996 Tax Roll	July or Dec., 1996 for 1995 and/or 1996 Exemption*	No Review Authority	NO Review Authority	Within 30 days of Board of Review Action

***Contact your local unit of government for the dates of Boards of Review**

REPRINT FROM STC BULLETIN NO. 3 OF 1995

E) Additions

PA 415 defines additions for the capped value formula. The following are additions from PA 415:

1) Omitted Real Property

Omitted real property is property which should have been included on a previous year's assessment roll but was incorrectly omitted. Omitted property shall not qualify as an addition in the current capped value formula unless the assessor has a property record card or other documentation showing that the omitted real property was not previously included in the assessment.

If omitted property is discovered after the assessment roll has been completed by the Board of Review, it may be added to the tax roll by using the section 154 procedures already established for handling omitted property. (Note: The State Tax Commission does not accept section 154 filings involving minor items such as missing porches).

The dollar amount of the addition in the capped value formula for omitted property is the amount of taxable value the omitted property would currently have if it had not been omitted. For 1995, this amount is 50% of the current TCV of the omitted property. However, starting in 1996, the assessor will be required to calculate the SEV of the omitted property as of the year it was omitted and calculate its taxable value up to the current year as if it had not been omitted.

2) Omitted Personal Property

Omitted personal property is treated the same as omitted real property except that the law does not require that the assessor have a property record card or other documentation showing that the omitted personal property was not previously included in the assessment.

3) New Construction

New construction is property which was not in existence on the tax day for last year's assessment roll and is new on the current year's roll. New construction does not include replacement construction which is a separate category to be discussed later. New construction may include real or personal property.

The dollar amount of the addition in the capped value formula for new construction is calculated as follows:

Addition = TCV of the new construction X 50%

PA 415 states that new construction does not include the true cash value of expenditures for normal repairs, replacement, and maintenance which qualify to be exempted under the provisions of MCL 211.27(2)(a) to (o) sometimes referred to as the Mathieu Gast Act. The State Tax Commission advises that a taxpayer who wishes to have property exempt under this section of the law must apply in writing to the assessor, preferably on form L-4293. PA 415 changes MCL 211.27(2) to allow the exemption of qualifying expenditures for normal repairs, replacement, and maintenance made <u>at any time</u> by the current owner. Formerly, only expenditures made after December 30, 1976 could qualify for non-consideration.

4) Previously Exempt Property

Previously exempt property is property that was exempt from ad valorem taxation on the immediately preceding tax day but is assessable on the current tax day.

There are 3 categories of previously exempt property:

a) Property that was previously exempt under the provisions of MCL 211.7u (poverty exemption).

   The dollar amount of the addition in the capped value formula for property previously exempt under MCL 211.7u is calculated as follows:

   Addition = The Taxable Value of the entire parcel in the current year if it had not been exempt MINUS (The Taxable Value in the preceding year X the lesser of 1.05 or the inflation rate).

   In the folloiwng example, this formula will result in the same taxable value in the year following a poverty exemption that the property would have had if it had not been exempt. In other words, a property which receives a poverty exemption in a current year will not in the following year lose the advantage of a low ratio of taxable value to true cash value that it may have gained over several years of the cap having been applied.

EXAMPLE:

1994 Assessed value of a property = $30,000

1994 Board of Review grants a partial poverty exemption lowering the assessed value to $10,000.

1994 State Equalized Value after exemption = $10,000

Inflation rate = 1.026
No physical changes to property in 1994.

1995 Tentative State Equalized Value = $31,000

Addition = The Taxable Value of entire parcel in current year if it had not been exempt MINUS (Taxable Value in preceding year X the lesser of 1.05 or inflation rate which is 1.026)

= ($30,000 x 1.026) MINUS ($10,000 x 1.026)
= $30,780 MINUS $10,260
= $20,520

1995 Capped Value = (1994 Final SEV - Losses) X (The lower of 1.05 or the inflation rate of 1.026) + Additions
= ($10,000 - 0) X 1.026 + $20,520
= $30,780

NOTE: Public Act No. 390 of 1994 (Enrolled House Bill No. 5019) expands section 7u of the General Property Tax Act which deals with the poverty exemption. This new law allows partial poverty exemptions. PA 390 will be addressed by a future bulletin.

b) Property that was previously exempt under the provisions of MCL 211.7k because it qualified as a new facility on the Industrial Facilities Tax (IFT) roll. Property previously exempt under MCL 211.7k as a replacement facility fits into category c below.

The amount of the addition in the capped value formula for property previously exempt under MCL 211.7k as a new facility is the taxable value the property would have had in the current year if it had not been exempt. The dollar amount of the addition would be 50% of TCV for 1995. However, in future years it could be less than 50% if TCV increases faster than taxable value.

c) Property that was previously exempt under any other section of law is the TCV of previously exempt property x 50%. This includes property previously exempt under MCL 211.7k as a replacement facility.

5) Replacement Construction

Replacement construction is construction that replaces property damaged or destroyed by accident or by an act of God provided that <u>all</u> 4 of the following conditions are met:

a) The property being replaced must have been damaged or destroyed by accident or an act of God.

b) The accident or act of God which damaged or destroyed the property occurred within the three calendar years preceding the current assessment year.

c) The replacement construction occurred sometime in the year following last year's tax day.

d) The TCV of the amount allowed as replacement construction does not exceed the TCV of the property damaged as destroyed. If the true cash value of the construction exceeds the true cash value of the property that was damaged or destroyed, the excess amount must be treated as "new construction" under category #3 above.

The dollar amount of the addition in the capped value formula for replacement construction is calculated as follows:

$$\text{Addition} = \begin{array}{l}\text{TCV of}\\ \text{Replacement}\\ \text{Construction}\end{array} \times \frac{\text{Taxable Value of the subject property in the previous year}}{\text{TCV of the subject property in the previous year}}$$

For 1995, the third element in the formula above is 50% since the taxable value in 1994 was the SEV. However, in future years this ratio must be calculated since it may be less than 50%.

6) Remediation (Correction) of Environmental Contamination

An increase in the value of a parcel attributable to complete or partial correction of environmental contamination which existed on last year's tax day is an addition. The degree of remediation which has occurred shall be determined by the Department of Natural Resources.

The increase in value is frequently not the same as the cost to remediate.

The dollar amount of the addition in the capped value formula for an increase in value attributable to remediation of environmental contamination is calculated as follows:

$$\text{Addition} = \begin{array}{l}\text{Increase in}\\ \text{TCV due to}\\ \text{Remediation}\end{array} \times \frac{\text{Taxable Value of subject property as if it had not been contaminated}}{\text{TCV of subject property as if it had not been contaminated}}$$

For 1995, the third element of the formula above is 50% since taxable value in 1994 was the 1994 SEV. However, starting in 1996, this ratio must be calculated since it may be less than 50%.

7) Increase in Occupancy Rate

An increase in value attributable to an increase in the occupancy rate of an income producing property is an addition provided one of the following conditions is met:

a) A loss was allowed in a previous year due to a decrease in occupancy rate or

b) A loss was allowed in a previous year on newly constructed property due to a below market occupancy.

Note: Please refer to the section of this bulletin labeled "Losses" for an explanation of when a decrease in occupancy rate can be considered a loss.

The dollar amount of the addition in the capped value formula for an increase in value attributable to an increase in occupancy rate is calculated as follows:

$$\text{Addition} = \begin{matrix}\text{Increase in}\\ \text{TCV due to}\\ \text{Occupancy Increase}\end{matrix} \times \frac{\text{Taxable Value of the subject property in the previous year}}{\text{TCV of the subject property in the previous year.}}$$

For 1995, the third element of the formula above is 50% since taxable value in 1994 was the SEV. However, starting in 1996, this ratio must be calculated.

8) Public Services

Public services means water service, sewer service, a primary access road, natural gas service, electrical service, telephone service, sidewalks, or street lighting.

An increase in TCV attributable to public services is an addition in the assessment year following the year when the public services were initially available.

The dollar amount of the addition in the capped value formula for public services is calculated as follows:

$$\text{Addition} = \begin{matrix}\text{Increase in}\\ \text{TCV due to}\\ \text{Public Services}\end{matrix} \times 50\%$$

The following are not additions for the capped value formula:

1) Platting, Splits, or Combinations

An increase in value attributable to platting, splits, or combination of parcels is not an addition unless they are accompanied by a physical change in the property or unless the increase is due to public services (see number 8 above).

2) Zoning Change

An increase in value attributable to a change in zoning is not an addition.

3) Inflation

An increase in value due to inflation is not an addition.

4) Economic Conditions

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

F) Losses

PA 415 defines losses for the capped value formula. The following are losses from PA 415:

1) Property Destroyed or Removed

Property that has been destroyed or removed is a loss for the capped value formula. The dollar amount of the loss in the capped value formula is calculated as follows:

$$\text{Loss} = \begin{array}{l}\text{TCV of}\\ \text{Property}\\ \text{Destroyed or}\\ \text{Removed}\end{array} \times \frac{\text{Taxable Value of the subject property in the previous year}}{\text{TCV of the subject property in the previous year.}}$$

For 1995, the third element of the formula above is 50% since taxable value in 1994 was the 1994 SEV. However, starting in 1996, this ratio must be calculated since it may be less than 50%.

2) Exempt Property

Exempt Property is property that was subject to ad valorem taxation on the previous tax day but is exempt on the current tax day.

The dollar amount of the loss in the capped value formula for exempt property is the taxable value of the property exempted.

3) <u>Decrease in Occupancy Rate</u>

A decrease in value attributable to a decrease in the occupancy rate for an income producing property is a loss, provided that the decreased occupancy rate is projected to be permanent into the foreseeable future. When an occupancy rate which is at the stabilized level for the area decreases temporarily but is expected to return soon to the stabilized level, no adjustment in the value of the property is warranted.

Likewise, a newly constructed office building which is only 50% occupied on tax day should not be valued as if the 50% occupancy were permanent if the stabilized occupancy rate for the area is much higher than 50%.

The dollar amount of the loss in the capped value formula for a loss in value attributable to a decrease in the occupancy rate is calculated as follows:

$$\text{Loss} = \begin{array}{l}\text{Decrease in}\\ \text{TCV due to}\\ \text{Decrease in}\\ \text{Occupancy}\end{array} \times \frac{\text{Taxable Value of the subject property in the preceding year}}{\text{TCV of subject property in the preceding year}}$$

For 1995, the third element of the formula above is 50% since taxable value in 1994 was the 1994 SEV. However, starting in 1996, this ratio must be calculated since it may be less than 50%.

4) <u>Environmentally Contaminated Property</u>

A decrease in value attributable to environmental contamination which existed on the property on the current tax day is a loss for the capped value formula. The degree of contamination must be determined by the Department of Natural Resources.

The dollar amount of the loss in the capped value formula is calculated as follows:

$$\text{Loss} = \begin{array}{l}\text{Decrease in}\\ \text{TCV attributable}\\ \text{to Contamination}\end{array} \times \frac{\text{Taxable Value of subject property in the previous year if it had not been contaminated}}{\text{TCV of subject property in the previous year if it had not been contaminated}}$$

For 1995, the third element of the formula above is 50% since taxable value in 1994 was the 1994 SEV. However, starting in 1996, this ratio must be calculated since it may be less than 50%.

The following are not losses:

1) Platting, Splits, or Combinations

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

2) Zoning Change

A decrease in value attributable to a change in zoning is not a loss.

3) Deflation

A decrease in value due to deflation is not a loss.

4) Economic Conditions

A decrease in value due to worsening economic conditions is not a loss.

G) Industrial Facilities Tax (IFT) Roll

Taxes on the IFT roll are calculated by multiplying the appropriate millage by the State Equalized Value of the property. It is, therefore, not necessary to calculate a capped value for the IFT roll.

H) Notice of Assessment Increase

State Tax Commission (STC) Bulletin No. 14 of 1994 informed assessors and equalization directors about the additional items required to be on the notice of assessment increase in 1995.

PA 415 adds the following 2 requirements starting in 1995 regarding the notice of assessment increase:

1) **The notice of assessment increase shall include a statement PROVIDED BY THE STATE TAX COMMISSION explaining the relationship between state equalized valuation and taxable value.**

The following statement appears on the model notice of assessment increase included with STC Bulletin No. 14 of 1994. This language must appear on all notices of assessment increase in 1995.

Proposal A, passed by the voters on March 15, 1994, places a limit on the value used to compute property taxes. STARTING IN 1995, YOUR PROPERTY TAXES WILL BE CALCULATED USING TAXABLE VALUE (see line 4 below). In the past, your taxes have been calculated using State Equalized Value (SEV). State Equalized Value is the Assessed Value multiplied by the Equalization Factor, if any. State Equalized Value must approximate 50% of market value. The Taxable Value is the lower of the 1995 State Equalized Value or the 1994 State Equalized Value multiplied by 1.026 which is the Consumer Price Index for the current period. Taxable Value may also increase or decrease due to physical changes in your property.

REPRINT FROM STC BULLETIN NO. 18 OF 1995

5) **Capped Value Formula: Additions and Losses (Please note that Additions and Losses for the Capped Value formula and for any "Headlee" and Truth in Taxation millage rollback calculations are different from New and Loss for Equalization purposes, i.e., their use on L-4021, L-4022, L-4023)**

As stated on page 2 of this bulletin, the 1996 Capped Value formula is as follows:

Capped Value = (Prior Year's Taxable Value - Losses) X (the lowest of 1.05 or the Inflation Rate or the Value Change Multiplier) + Additions.

Starting in 1996, many Additions and Losses (used in the Capped Value, "Headlee", and Truth in Taxation calculations) will not be calculated the way they were in 1995. In 1995, the amount of the Additions and Losses used in the Capped Value formula was typically 50% of the true cash value of the item causing the Addition or Loss. (See STC Bulletin #3 of 1995).

Starting in 1996, SOME Additions and Losses will continue to be 50% of the true cash value of the items causing the Addition or Loss, BUT MANY WILL BE LESS THAN 50%.

You are advised to carefully study pages 6 to 13 of STC Bulletin No. 3 of 1995. There are 8 categories of Additions listed on those pages and 4 categories of Losses.

Of the 8 categories of Additions, only the formulas for New Construction, certain Previously Exempt Properties, and Public Services call for 50% of the true cash value of the item.

The formulas for the remaining types of Additions all could result in an amount which is less than 50% of the true cash value of the item causing the Addition. Please see the table below.

Additions

Must be 50% of True Cash Value		Could be Less than 50% of True Cash Value	
1)	New Construction	1)	Omitted Real Property
2)	Previously Exempt Property OTHER THAN Poverty Exemptions and IFT New Facility Exemptions	2)	Omitted Personal Property
		3)	Properties Which Had a Poverty Exemption or IFT New Facility Exemption in the Previous Year
3)	Public Services	4)	Replacement Construction
		5)	Remediation of Environmental Contamination
		6)	Increase in Occupancy Rate

All of the categories of Losses found on pages 11 and 12 of STC Bulletin No. 3 of 1995 have formulas which call for multiplying the true cash value of the item causing the Loss by a ratio which could be less than 50%. There are four categories of Losses.

As discussed under paragraph #4 above, Additions and Losses (used for Capped Value, Truth in Taxation and "Headlee" calculations and reported on form L-4025) are frequently not the same as New and Loss (used in the equalization process and reported on forms L-4021 and L-4022).

There are 2 pertinent differences between "New" and "Loss" used in the Equalization process and "Additions and Losses" used in the Capped Value, "Headlee" and Truth in Taxation calculations:

a) Platting, splits, combinations, and class changes are categorized as equalization New and Loss but are NOT Additions and Losses for Capped Value, "Headlee", and Truth in Taxation calculations

b) New and Loss for equalization purposes are at 50% of true cash value, assuming the assessing unit gets an equalization factor of 1.0000. Additions and Losses for Capped Value, "Headlee", and Truth in Taxation calculations will frequently be less than 50% of true cash value as explained earlier in this section of the bulletin. (Note that in the year

Petition No. ______________

1996 CAPPED VALUE CALCULATIONS WORKSHEET

(This form shall be filled out by the Board of Review (BofR) and made a part of the Board of Review (BofR) Record whenever a change is made to an individual parcel of real property which causes Capped Value to change.)

		By Assessor	By B of R
1995 Taxable Value	=		
Amount of Losses (See pages 11 & 12 of STC Bull. #3 of 1995 for formulas)	=		
Value Change Multiplier (VCM) (From calculations below)	=		
Amount of Additions (See pages 6-11 of STC Bull. #3 of 1995 for formulas)	=		

1996 Capped Value = (1995 Taxable Value - Losses) X (Lower of 1.028 or VCM) + Additions

= (__________ - __________) X __________ + __________

= By B of R

1996 VALUE CHANGE MULTIPLIER (VCM)

		By Assessor	By B of R
1996 Assessed Value X Tent. Equal. Factor (Tentative SEV)	=		
1996 Assessed Value of NEW X Tent. Equal. Factor (Tentative SEV of NEW Property)	=		
1995 FINAL SEV	=		
1995 SEV of LOSS	=		

1996 VCM = $\frac{\text{1996 SEV} - \text{1996 SEV of NEW Property}}{\text{1995 SEV} - \text{1995 SEV of LOSS}}$

= __________ - __________
  __________ - __________

= By B of R

Signature of Secretary Board of Review	Date

Michigan Department of Treasury
L-4035 (Rev. 1-96)

This form is issued under the authority of P.A. 206 of 1893, as amended. Filing is voluntary, however you may not appeal to the Michigan Tax Tribunal or the State Tax Commission unless you first protest to the Board of Review.

PETITION TO BOARD OF REVIEW

TO BE COMPLETED BY OWNER OR OWNER'S AGENT

Township or City	County

The undersigned protests the assessed value and/or the tentative taxable value and/or the property classification and/or the qualified agricultural property exemption of the following described property:

Property identified (Parcel code required. Property address & legal description optional):

Check box for item being protested: ☐ Assessed Value ☐ Tentative Taxable Value ☐ Classification ☐ Qualified Agricultural Property Exemption

1. PROTEST OF ASSESSMENT (Complete this section for a protest of assessed value and/or tentative taxable value)

Assessed Amount	Owner's Estimate of True Cash Value	Tentative Taxable Value	Year

2. PROTEST OF CLASSIFICATION (Complete this section for a request to change the classification. The Board of Review must make their decision regarding classification in accordance with Section 211.34c of the Michigan Compiled Laws. The Board of Review shall not be influenced by the effect that a particular classification has on that property's status as a homestead or qualified agricultural property.)

Classification of property on this year's assessment roll:

Classification should be: (Please check one of the following:)

☐ AGRICULTURAL ☐ INDUSTRIAL ☐ TIMBER CUTOVER ☐ UTILITY (Personal Property Only)
☐ COMMERCIAL ☐ RESIDENTIAL ☐ DEVELOPMENTAL

3. PROTEST OF EXEMPTION FOR QUALIFIED AGRICULTURAL PROPERTY (If the assessor has denied or changed the percentage of the exemption from the 18 mills of local school operating tax for qualified agricultural property, the owner may appeal this action to the March Board of Review. THE BOARD OF REVIEW HAS NO AUTHORITY TO CONSIDER OR ACT UPON THE EXEMPTION FROM THE 18 SCHOOL OPERATING MILLS FOR HOMESTEAD PROPERTIES.)

Percent Qualified Agricultural Exemption Granted by Assessor: ____________ (Enter 0 if exemption denied)

Percent Qualified Agricultural Exemption Requested by Owner: ____________ (Enter 100 if full exemption requested)

4. REASON FOR PROTEST

State reason(s) for protest of assessed value and/or the tentative taxable value and/or classification and/or qualified agricultural property exemption

Signature	Date
Address	Phone No.

A further appeal of the assessed value and/or tentative taxable value and/or the qualified agricultural property exemption may be made to the Michigan Tax Tribunal, 1033 S. Washington Ave., P.O. Box 30232, Lansing, MI 48909. The final date for filing such an appeal is June 30 of the current year. **Only a property classification appeal** may be filed with the State Tax Commission, P.O. Box 30471, Lansing, MI 48909-7971. The final date for filing a classification appeal is not later than 30 days after final adjournment of the Board of Review. (Refer to date of final adjournment shown at the bottom of the reverse side.)

FOR BOARD OF REVIEW USE ONLY

INCORPORATE A COPY OF THIS FORM AND THE ASSIGNED NUMBER IN THE BOARD OF REVIEW MINUTES

Petition No.	Parcel Code

1. ASSESSED VALUE (Disposition by Board of Review.) **The Board of Review Must state the reason for its action below.**

☐ Denied ☐ Assessed Value Changed From: ____________________ To: ____________________

Record of Vote - Board or Three Member Committee of Board

Chairperson: ☐ YES ☐ NO	Member: ☐ YES ☐ NO	Member: ☐ YES ☐ NO

Reason For Board Action:

2. TENTATIVE TAXABLE VALUE (Disposition by Board of Review.) **The Board of Review Must state the reason for its action below.**

☐ Denied ☐ Tentative Taxable Value Changed From: ____________________ To: ____________________

Record of Vote - Board or Three Member Committee of Board

Chairperson: ☐ YES ☐ NO	Member: ☐ YES ☐ NO	Member: ☐ YES ☐ NO

Reason For Board Action:

3. CLASSIFICATION (Disposition by Board of Review.) **The Board of Review Must state the reason for its action below.**

☐ Denied ☐ Classification Changed From: ____________________ To: ____________________

Record of Vote - Board or Three Member Committee of Board

Chairperson: ☐ YES ☐ NO	Member: ☐ YES ☐ NO	Member: ☐ YES ☐ NO

Reason For Board Action:

4. QUALIFIED AGRICULTURAL PROPERTY EXEMPTION (Disposition by Board of Review.) **The Board of Review Must state the reason for its action below.**

☐ Exemption Request Denied ☐ Exemption Modified From: ____________________ % To: ____________________ %

Record of Vote - Board or Three Member Committee of Board

Chairperson: ☐ YES ☐ NO	Member: ☐ YES ☐ NO	Member: ☐ YES ☐ NO

Reason For Board Action:

FINAL ADJOURNMENT OF BOARD OF REVIEW	Date
Signature of Secretary Board of Review	Date