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STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

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BOARD OF REVIEW

TO: **Boards of Review**
Assessing Officers

FROM: **State Tax Commission (STC)**

RE: **2008 BOARD OF REVIEW**

This Bulletin contains information regarding changes that Boards of Review need to be aware of for the 2008 assessment year. The State Tax Commission has published a new Question and Answer Document regarding the statutory obligations for Boards of Review. <u>The STC asks that all Boards of Review carefully review the Q and A so that they fully understand their statutory obligations.</u>

1) Documentation of Board of Review Changes:

The State Tax Commission is requiring that all Boards of Review maintain appropriate documentation of their decisions including minutes, a copy of the form 4035 and the 4035a whenever the Board of Review makes a change that causes the Taxable Value to change and a Board of Review Action Report. The 4035 must include a detailed reason why the Board made their determination.

Minutes must include:

a. Day, time and place of meetings.

b. Members present and members absent and notation of any correspondence received.

c. A log should be kept that identifies the hearing date, the petition number, the petitioner's name, the parcel number, the type of appearance, type of appeal and action of the board of review.

d. Actual hours in session should be recorded daily, and time of daily adjournments recorded. Date and time of closing of the final annual session should be recorded.

The Board of Review Action Report is a report summarizing the actions of the Board of Review. It must include a total assessed and taxable value changed, assessed and taxable value change by classification, total poverty exemptions appeals made and number approved and total number of classification appeals made and number of classification changes made.

2) Inflation Rate used in the 2008 Capped Value Formula:

The inflation rate, expressed as a multiplier, to be used in the 2008 Capped Value formula is 1.023.

Boards of Review are cautioned that they cannot make up their own inflation rate multiplier, nor should they indicate to taxpayers that they do not know how the multiplier is calculated. MCL 211.34d states in part:

> (l) "Inflation rate" means the ratio of the general price level for the state fiscal year ending in the calendar year immediately preceding the current year divided by the general price level for the state fiscal year ending in the calendar year before the year immediately preceding the current year.
> (f) "General price level" means the annual average of the 12 monthly values for the United States consumer price index for all urban consumers as defined and officially reported by the United States department of labor, bureau of labor statistics.

Based on this statutory requirement, the calculation for 2008 is as follows:
The 12 monthly values for October 2005 through September 2006 are averaged.(A)
The 12 monthly values for October 2006 through September 2007 are averaged.(B)
The ratio of B divided by A is calculated.

The specific numbers from the US Department of Labor, Bureau of Labor Statistics are as follows:

	Oct-05	199.2	Oct-06	201.8
	Nov-05	197.6	Nov-06	201.5
	Dec-05	196.8	Dec-06	201.8
	Jan-06	198.3	Jan-07	202.4
	Feb-06	198.7	Feb-07	203.5
	Mar-06	199.8	Mar-07	205.4
	Apr-06	201.5	Apr-07	206.7
	May-06	202.5	May-07	207.9
	Jun-06	202.9	Jun-07	208.4
	Jul-06	203.5	Jul-07	208.3
	Aug-06	203.9	Aug-07	207.9
	Sep-06	202.9	Sep-07	208.5
Average		**200.6**		**205.3**
			Ratio	**1.023**
			% Change	**2.3%**

3) Michigan Business Tax:

On July 12, 2007 Governor Granholm signed into law Public Act 36 of 2007, the Michigan Business Tax Act (MBTA), which takes effect January 1, 2008. The MBTA provides the following refundable credits for property taxes levied after 2007 and paid in the tax year: for industrial personal property, 35%; for natural gas pipeline personal property, 10%, and for telephone personal property subject to the State Utility Tax, 23% for 2008 and 13.5% thereafter.

Public Acts 37, 38, 39, and 40 of 2007, tie-barred to the MBTA, exempt Industrial Personal Property from the 6 mill State Education Tax and up to 18 mills of local school district operating millage; and exempt Commercial Personal Property from up to 12 mills of local school district operating millage. The acts do not change the definitions of industrial and commercial personal property contained in MCL 211.34c, which are used to determine the aforementioned exemptions. **Boards of Review are advised that nothing in the new laws merits any changes in classification of personal property.** Boards of Review are also reminded that, MCL 211.34c(5) provides that "if the total usage of a parcel includes more than 1 classification, the assessor shall determine the classification that most significantly influences the total valuation of the parcel."

For more information please reference Bulletin 7 of 2007 for more detail on classification and/or the Michigan Business Tax and the Department of Treasury Michigan Business Tax Website at www.michigan.gov/taxes.

4) Changes in Agricultural Classification:

A number of Public Acts passed in 2006, which changed the definition for classification of Agricultural Real Property. The definition now reads:

> (a) Agricultural real property includes parcels used partially or wholly for agricultural operations, with or without buildings. For taxes levied after December 31, 2002, agricultural real property includes buildings on leased land used for agricultural operations. As used in this subdivision, "agricultural operations" means the following:
> (i) Farming in all its branches, including cultivating soil.
> (ii)Growing and harvesting any agricultural, horticultural, or floricultural commodity.
> (iii) Dairying.
> **(iv) Raising livestock, bees, fish, fur-bearing animals, or poultry, including operating a game bird hunting preserve licensed under part 417 of the natural resources and environmental protection act, 1994 PA 451, MCL 324.41701 to 324.41712, and also including farming operations that harvest cervidae on site where not less than 60% of the cervidae were born as part of the farming operation. As used in this subparagraph, "livestock" includes, but is not limited to, cattle, sheep, new world camelids, goats, bison, privately owned cervids, ratites, swine, equine, poultry, aquaculture, and rabbits. Livestock does not include dogs and cats.**
> (v) Raising, breeding, training, leasing, or boarding horses.
> (vi) Turf and tree farming.
> (vii) Performing any practices on a farm incident to, or in conjunction with, farming operations. A commercial storage, processing, distribution, marketing, or shipping operation is not part of agricultural operations.

5) Qualified Errors.

Public Act (PA) 13 of 2006 amended MCL 211.53b to grant the July and/or December Boards of Review the authority to correct a qualified error. Qualified errors are defined in the act as:

(a) A clerical error relative to the correct assessment figures, the rate of taxation, or the mathematical computation relating to the assessing of taxes.
(b) A mutual mistake of fact.
(c) An adjustment under section 27a(4) – taxable value or an exemption under section 7hh(3)(b) – qualified start-up business exemption.

(d) For board of review determinations **in 2006 through 2009**, 1 or more of the following:
(*i*) An error of measurement or calculation of the physical dimensions or components of the real property being assessed.
(*ii*) An error of omission or inclusion of a part of the real property being assessed.
(*iii*) An error regarding the correct taxable status of the real property being assessed.
(iv) An error made by the taxpayer in preparing the statement of assessable personal property under section 19.

Please see Bulletin 5 of 2006 for more information on Qualified Errors.

6) Foreclosure Sales.

The State Tax Commission issued guidance regarding the use of foreclosure sales in sales studies, through Bulletin 6 of 2007. The recent increase in foreclosures has caused those transactions to have an impact on the real estate market in some parts of the state. In hearing appeals, Boards of Review are cautioned that foreclosure sales should be scrutinized in the same way as foreclosure sales are considered for inclusion in these ratio studies. Boards of Review are strongly encouraged to familiarize themselves with Bulletin 6 of 2007 and the guidelines related to foreclosure sales.

7) Single-Year Sales Studies.

The State Tax Commission issued guidelines for use of a single-year sales study via Bulletin 5 of 2007. Those guidelines indicate that single-year sales studies may be considered only when there is significant evidence of a declining market. Evidence may include, but is not limited to:

a) A reduced number of market sales without a reduction in the number of listings
b) An increase in the number of foreclosure sales
c) A loss of major employer(s)
d) A single-year sales study ratio higher than the standard 24-month ratio, in combination with items a through c above

Sales occurring between October 1 of the previous year through September 30 prior to tax day are to be used in the single-year study. Because the use of single-year sales studies may be a topic before Boards of Review in many areas of the State, Boards of Review are encouraged to familiarize themselves with Bulletin 5 of 2007 and the guidelines related to single-year sales studies.