

STATE OF MICHIGAN



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**TO:** Assessors  
Equalization Directors

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

**RE: THE ILLEGAL PRACTICES OF:**

**A) "FOLLOWING SALES"**

**AND**

**B) ASSESSING OVER 50%**

The State Tax Commission is very concerned about reports that some assessors have engaged in the illegal practices of "following sales" and assessing over 50% of true cash value.

The purpose of this bulletin is to provide instruction to assessors regarding these illegal practices.

**A. "Following Sales"**

"Following sales" is described in the State Tax Commission Assessor's Manual as the practice of ignoring the assessments of properties which **HAVE NOT RECENTLY SOLD** while making significant changes to the assessments of properties which **HAVE RECENTLY SOLD**.

"Following sales" can also be described as the practice of assessing properties which **HAVE RECENTLY SOLD** significantly differently from properties which **HAVE NOT RECENTLY SOLD**.



Article IX, Section 3 of the State Constitution states that "The legislature shall provide for the **UNIFORM** general ad valorem taxation of real and tangible personal property ..."  
This requirement has NOT changed as a result of Proposal A.

Section 27(5) of the General Property Tax Act states the following:

"In determining the true cash value of transferred property, an assessing officer shall assess that property using the same valuation method used to value all other property of that same classification in the assessing jurisdiction."

The following example illustrates the illegal practice of "following sales".

**EXAMPLE:** An assessor has been notified by the equalization department that the starting base for the residential class in his/her unit is 45.45%. This means that it is necessary for the assessor to increase the residential class overall by about 10% in order to avoid a factor. It is the assessor's responsibility to determine where this increase should be spread in order that all properties are assessed at 50%.

It would be illegal for the assessor to generally increase properties which have recently sold by say 25% while increasing all other properties in a neighborhood by say 5%. This would be an example of the illegal practice of "following sales".

"Following sales" is both **UNCONSTITUTIONAL AND ILLEGAL**. An exception would occur where an assessor inspects a property after a transfer of ownership and discovers that there is omitted property such as a garage which was built in the past but was not included in the assessment and was not noted on the assessment card. In this case the assessor must include the omitted property in the assessed value for the year following the transfer of ownership.

If the assessor is doing a proper job of assessing all properties uniformly at 50% of true cash value each year, there is no reason to assess properties which have sold any differently from properties which have not sold.

In a related matter, some assessors believe that Proposal A requires that, in the year following a transfer of ownership, the assessed value of a property which has transferred must automatically be set at ½ of the sale price. **Proposal A does NOT authorize the assessor to AUTOMATICALLY set the assessed value of a property which has sold at ½ of the sale price.** An individual sale price may NOT be a good indicator of the true cash value of the property due to a variety of reasons (such as an uninformed buyer, an uninformed seller, insufficient marketing time, buyer and seller are relatives, and other possible reasons).

## **B. Assessing Over 50%**

It has come to the attention of the State Tax Commission that some assessors are making a practice of assessing properties in excess of 50% of true cash value. This is an illegal practice.

Article IX, Section 3 of the State Constitution states that the assessment of property shall not exceed 50% of its true cash value.

Section 27a of the General Property Tax Act states that property shall be assessed at 50% of its true cash value.

County equalization departments are required to study every classification of property every year and to report the starting ratios to assessors so that the assessors know how much assessments must be changed overall in order to avoid an equalization factor greater or less than 1.0000.

County equalization directors are required to use a 24 month period of sales when studying a class of property. This is true whether the director prepares an assessment/sales ratio study or an appraisal study (An exception to this occurs where there is a severely declining real estate market, in which case a single year study may be substituted for a two year study.)

The 24 month time period which equalization directors must use in setting the starting base for 1998 assessments is as follows:

**Year 1:           April 1, 1995 to March 31, 1996**

**Year 2:           April 1, 1996 to March 31, 1997**

**ASSESSORS ARE REQUIRED TO USE THIS SAME 24 MONTH TIME PERIOD FOR SALES USED FOR CALCULATING ECONOMIC CONDITION FACTORS (ECF'S) AND LAND VALUES.**

**This means that assessors are NOT allowed to incorporate the market value INCREASES from sales occurring in the last 9 months of 1997 into the assessments for 1998. To do so could cause assessments to exceed 50% of true cash value. If assessments exceed 50%, it is the responsibility of the County Board of Commissioners to apply a factor of less than 1.0000 in order to reduce the assessments down to 50%.**

**This means that for 1998 assessments, an assessor is NOT allowed to incorporate market**

value increases which have occurred from April 1, 1997 to December 31, 1997.

The assessor should also be aware that the County Board of Commissioners is permitted by the State Tax Commission to equalize as assessed in those classes where the ending ratio on line 8 of STC Form L-4023 falls between 49.00% and 50.00%. This means that if an assessor is striving to reach 50% but ends up, for example, at 49.50%, an equalization factor of 1.0000 will be assigned by the County Board of Commissioners, NOT an equalization factor greater than 1.0000.

Assessors must also be aware that this same leeway does NOT exist for ratios which fall between 50.01% and 51.00%. The State Tax Commission, in STC Bulletin No. 13 of 1996, advises that a County Board of Commissioners has the obligation to determine the correct true cash value for each class of property for each year even if this results in a class of property receiving an equalization factor of less than 1.0000. An assessor should therefore expect to receive an equalization factor of less than 1.0000 if the ratio on line 8 of form L-4023 exceeds 50% by any amount, provided that the starting ratio was based on a reliable and accurate study. (Please see page 5, paragraph C (copy attached) of STC Bulletin No. 13 of 1996 for an exception to this rule when there has been a complete reappraisal.)

The State Tax Commission intends to closely monitor this practice of assessing in excess of 50% for the 1998 assessment year.

Assessors are advised to review pages 4 to 6 (copies attached) of STC Bulletin No. 13 of 1996 regarding ratios which exceed 50% of true cash value.

# REPRINT FROM STC BULLETIN NO. 13 OF 1996

## 2) **Assessment/True Cash Value Ratios Over 50% on STC Form L-4023**

There has been some misunderstanding in recent years about the STC position regarding procedures to follow when the ratio for a class of property exceeds 50% on line \_05 of the form L-4023.

The practice of some counties has been to automatically reduce a ratio (which exceeds 50%) down to 50% by adding true cash value on line \_07 of the form L-4023.

The STC policy regarding procedures to follow when a ratio exceeds 50% on line \_05 of the form L-4023 is based on whether or not the starting ratio on line \_01 of the form L-4023 is supported by a reliable and accurate equalization study.

### a) **Procedure When a Ratio on Line \_05 of the Form L-4023 Exceeds 50% and the Ratio on Line \_01 of the Form L-4023 Is Based on a Reliable and Accurate Study**

Article IX, Section 3 of the Michigan Constitution states that assessments on property shall not exceed 50% of true cash value.

When a ratio on line \_05 of Form L-4023 has been properly calculated and exceeds 50% (except for the situation described in paragraph c below) and this ratio is based on a reliable and accurate sales or appraisal study, the constitution and the law require that the County Board of Commissioners apply an equalization factor of less than 1.0000 in order to bring the State Equalized Value down to 50%. It would be INCORRECT procedure, in this instance, to add true cash value on line \_07 of the Form L-4023 in order to reduce the ratio to 50% and thereby have a factor of 1.0000. An example of this INCORRECT procedure is shown on a Form L-4023 on the page labeled EXAMPLE #1.

The County Board of Commissioners has the obligation to determine the correct true cash value for each class of property for each year even if this results in a class of property receiving a county equalization factor of less than 1.0000.

See also paragraph c below for special provisions for units where a complete reappraisal is being implemented.

**Important Note: If an equalization department finds it necessary to submit an amended L-4018 to the STC, a full explanation of the reason for the change must be included.**

**b) Procedure When a Ratio on Line \_05 of the Form L-4023 Exceeds 50% and the Ratio Is NOT Based on a Reliable and Accurate Study.**

Sometimes, contrary to STC Rule 209.41(4), the ratio on line \_05 of the Form L-4023 is NOT based on a reliable and accurate study such as when a ratio is based on an unsupported estimate by the equalization department. When this occurs and the ratio exceeds 50%, the ratio shall be reduced to 50% by adding true cash value on line \_07 of the Form L-4023. This is the procedure outlined in paragraph 4 on page 33 of Chapter 16 of the 1972 Assessor's Manual. **(Chapter 16 of the 1972 Assessor's Manual, along with amending STC bulletins, constitutes the applicable STC Equalization Chapter.)**

If true cash value is added on line \_07 of the form L-4023, a full explanation of the reason for this action must be included.

Any exception to this procedure of reducing the ratio to 50% in the circumstances described in section b must be accompanied by a complete explanation of the assessor's justification of assessments above the constitutional maximum level.

**c) Procedure When the Ratio on Line \_05 of the Form L-4023 Exceeds 50% and There Has Been a Complete Reappraisal in the Unit.**

Separate equalization procedures are frequently needed when analyzing the ratio for a unit where a complete reappraisal has been implemented on the current assessment roll. For purposes of this example, a complete reappraisal occurs when a revaluation is accompanied by a **reinspection of each parcel of property.**

The starting ratio for the Form L-4018 (which is carried to Line \_01 of the Form L-4023) is calculated using standard study procedures as described in Chapter 16 of the 1972 Assessor's Manual. The ratio may be based on an assessment /sales ratio study or an appraisal study or a combination of the two. In any case, the assessments that are compared to the sales or the appraisals are for a year(s) prior to the reappraisal.

Sometimes, as a result of a reappraisal, the ratio on line \_05 of the Form L-4023 is in excess of 50% especially when the unit has not been

reappraised for many years. This may be true because the reappraisal is picking up many improvements made over the years which are not identifiable at the time of the reappraisal as equalization NEW and are therefore being treated as equalization PLUS ADJUSTMENTS.

In this situation the equalization department may hold the ratio at 50% (rather than allowing it to exceed 50%) PROVIDED THAT THE EQUALIZATION DEPARTMENT HAS ANALYZED THE REAPPRAISAL AND IS CONVINCED THAT THE REAPPRAISAL IS RESULTING IN ASSESSMENTS THAT ARE AT 50% OF TRUE CASH VALUE. In this case, true cash value is added on line \_07 of the L-4023 and an explanation must be included. An example of this procedure is shown on a Form L-4023 on the page labeled EXAMPLE #2.

d. **Assessment/True Cash Value Ratios Between 49.00% and 51.00%**

The STC continues to allow a classification of property within a township or city to be equalized as assessed if the ratio on line 8 of the Form L-4023 lies between **49.00% and 50.00%**. This has not changed.

The STC does NOT recommend that ratios between **50.01% and 51.00%** be equalized as assessed because the Constitution does not allow the assessment of property in excess of 50%. The STC policy regarding ratios over 50% was discussed in paragraphs a), b) and c) above.

The STC will use the same procedures to determine whether to DEDUCT true cash value from a classification of property in a given county on the 4th Monday in May as it presently uses to determine whether to ADD true cash value to a classification. These procedures have not changed.

3. **DNR Land Assessed on the Ad Valorem Roll**

Frequently State-owned land, which is controlled by the Department of Natural Resources (DNR) and is assessed on the ad valorem roll, is separately analyzed on the Form L-4018 as a sub class within the agricultural class of property. The remainder of the agricultural class is also separately analyzed.

Sometimes the DNR land is assigned a ratio of 50% on the Form L-4018 filed by December 31 and later it is discovered that the assessments established by the STC indicate a ratio of less than 50%.

The STC advises, in this situation, that the equalization department submit a revised Form L-4018 which correctly sets the starting ratio for DNR Land at the