STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

R. KEVIN CLINTON
STATE TREASURER

Bulletin No. 7 of 2014
June 11, 2014
Mathieu Gast Act

TO: **Assessing Officers and County Equalization Directors**

FROM: **Michigan State Tax Commission**

SUBJECT: **Mathieu Gast Act, P.A. 293 of 1976 as amended, MCL 211.27(2) Non-Consideration of the True Cash Value of Normal Repairs, Replacements and Maintenance for Residential Property**

Bulletin 17 of 1995 is rescinded.

RESCINDED

MCL 211.27(2): The assessor shall not consider the increase in true cash value that is a result of expenditures for normal repairs, replacement, and maintenance in determining the true cash value of property for assessment purposes until the property is sold. For the purpose of implementing this subsection, the assessor shall not increase the construction quality classification or reduce the effective age for depreciation purposes, except if the appraisal of the property was erroneous before non-consideration of the normal repair, replacement, or maintenance, and shall not assign an economic condition factor to the property that differs from the economic condition factor assigned to similar properties as defined by appraisal procedures applied in the jurisdiction. The increase in value attributable to the items included in subdivisions (a) to (o) that is known to the assessor and excluded from true cash value shall be indicated on the assessment roll. This subsection applies only to residential property. The following repairs are considered normal maintenance if they are not part of a structural addition or completion:

(a) Outside painting.
(b) Repairing or replacing siding, roof, porches, steps, sidewalks, or drives.
(c) Repainting, repairing, or replacing existing masonry.
(d) Replacing awnings.
(e) Adding or replacing gutters and downspouts.
(f) Replacing storm windows or doors.
(g) Insulating or weather stripping.
(h) Complete rewiring.
(i) Replacing plumbing and light fixtures.
(j) Replacing a furnace with a new furnace of the same type or replacing an oil or gas burner.
(k) Repairing plaster, inside painting, or other redecorating.
(l) New ceiling, wall, or floor surfacing.
(m) Removing partitions to enlarge rooms.
(n) Replacing an automatic hot water heater.
(o) Replacing dated interior woodwork.

General Information:

1. 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 non-consideration of the true cash value of normal repairs, replacements, and maintenance. Residential property includes attached and detached garages but does not include farm outbuildings such as barns, storage buildings, etc. Residential property is not limited to owner-occupied properties for example rental properties having less than four rental units are considered to be residential properties and would qualify for this exemption.

2. Assessors are required to give non-consideration treatment to known qualifying changes to real property, regardless of whether the taxpayer has filed a form L-4293. The exception is that a taxpayer is required to complete the form if the true cash value has been increased in a year other than the immediately preceding year and/or a capped value addition has previously been entered relating to the non-consideration item in question.

3. If the true cash value of non-consideration items is shown on the assessment roll in the first year after the qualifying change is made, then the true cash value of the item shall be calculated by performing "before" and "after" appraisals and then deducting the "before" true cash value from the "after" true cash value.

4. If the true cash value of non-consideration items is shown on the assessment roll in years subsequent to the first year after the qualifying change, then the true cash value of the item shall be calculated each year by performing "before" and "after" appraisals and then deducting the "before" true cash value from the "after" true cash value to determine the true cash value contribution of the item for that assessment year. The purpose of this approach is to reflect the current contribution, rather than the initial contribution, to true cash value which is provided by the item.

5. If non-consideration of a qualifying change is commemorated by file documentation that reflects the initial true cash value contribution of the non-consideration item, rather than by indicating the initial contribution on the assessment roll for the first year after the qualifying change occurs, the assessment roll shall include a statement indicating that Mathieu-Gast non-consideration has been provided.

6. When a property having one or more Mathieu-Gast non-consideration items is sold, the property may not be excluded from ratio or Economic Condition Factor studies solely because it has Mathieu-Gast non-consideration amounts. The true cash value of the property at the time of the sale may not be adjusted for study purposes to reflect inclusion of previously excluded Mathieu-Gast items, unless an initial calculation of true cash value in the assessment year following the year the qualifying change is made and unless the amount of the true cash value contribution made by the non-consideration item in the year of the sale is fully documented and reflects the current contribution made to true cash, after giving due consideration to depreciation of the item.

RESCINDED

7. Assessors are instructed that the word “normal” must be given its customary and usual meaning, so that it does not result in non-consideration of repairs, replacements or maintenance that are needed to make an uninhabitable structure habitable or to cure deferred maintenance which has previously resulted in the recognition of a capped value loss. “Deferred maintenance” is defined as repair, replacement or maintenance which was not accomplished at the end of the economic life of the property feature being repaired or replaced, with the result that a capped value loss was entered after a taxpayer-initiated complaint or protest. Examples of deferred maintenance might be a roof which leaks arising from the owner’s failure to replace the roof in a timely manner, or an inoperable furnace or hot water heater. This is the case only where the taxpayer has requested a reduction in value related to the unserviceable condition of the item and where the assessor has entered a capped value loss in recognition of that unserviceable status.

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 a reduction from the prior year will 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 non-consideration is now being made for the current assessment year, an assessment reduction from the prior year will 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 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.

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 will 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.

RESCINDED

If the repairs, replacement and/or maintenance were performed over many years in the past and a first time request for non-consideration 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 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.

RESCINDED