Understanding Property Taxes

Property taxes in Michigan are still Ad Valorem (according to value) based. Over the years there have been two primary limitations placed on the property tax system that limit the amount of revenue a local taxing authority can raise from year to year. First is the Headlee Amendment, which amended the state constitution in 1978, and second is Proposal A, which amended the state constitution in 1994, both by voter approval. What we pay in property taxes is the result of a calculation of our taxable value multiplied by authorized millage rate. The Headlee Amendment, in essence, regulates the tax rates while Proposal A regulates the taxable value.

The **Headlee Amendment** requires that increases in a local tax authority's property tax revenues from existing property not exceed the rate of inflation. In years where the tax base increases more than the rate of inflation, property tax millage rates are reduced, or rolled back, to keep from exceeding the revenue limit. This rollback does not apply to millages levied for "debt." Also, the revenue growth resulting from new development is not limited by the Headlee calculation. The Headlee calculation is applied on each taxing authority as a whole, while the Proposal A limitation calculation is applied to each individual parcel.

Proposal A limits the annual growth in taxable value of each parcel of property to the lesser of five percent or the rate of inflation, until such time when the property's ownership is transferred. The limitation is referred to as the "capped" calculation. The year following a transfer of ownership, the taxable value will become "uncapped" and therefore equal to the state equalized value. Remember, Proposal A shifted part of the public education financing from general property taxes to the state sales tax, exempting a homeowner's principle residence from the 18 mill school operating levy while increasing the state sales tax rate from four percent to six percent.

Proposal A has benefitted those who have no losses or additions to their property since 1994. These individuals make up the majority of taxpayers. For most, the growth in property values, have been greater than the inflation rate, therefore resulting in a limitation in the increase of the property tax bills.

One may ask if there is a down side to Proposal A. Two of the most frequent questions and/or concerns raised by taxpayers are: the unfairness of the disproportionate tax burden on the uncapped properties that transfer and the potential for an increasing tax burden on the properties that are declining in value.

The general property tax law and State Tax Commission guidelines govern the property tax limitations. The Assessing Department can help you with any questions you may have with regard to this complex process. We can be reached at 248-656-4605 or at assessing@rochesterhills.org.

WHAT DOES THIS MEAN TO ME AS A TAXPAYER?

The 2007 capped value formula is as follows:

2007 capped value = (2006 taxable value – losses)
x CPI (Inflation Rate)
+ Additions

EXAMPLE: (use 3.7% as CPI)
This example has no losses or additions made to the property.

	2006	2007
Taxable Value	100,000	103,700

The formula is 2006 TV (100,000) – losses (0) x 3.7% (CPI) + Additions (0) = 103,700

Taxes are determined from the formula:
Taxable Value x millage rate = Property Tax Bill

EXAMPLE:
2007 TV 103,700 x 30.4855 /per 1000 (millage rate) = $3161.35

Millage rates can vary by school district, Homestead, and Non-Homestead.

In the softening housing market that we are currently experiencing, the question is often asked, "How can the taxes increase when the property values are decreasing?" This can occur when there is a spread between the state equalized value and the taxable value. The assessed value is determined at 50% of the current market value.

EXAMPLE:
Current market decreases 10%

	2006	2007	
Assessed Value	150,000	135,000	-10%
Taxable Value	100,000	103,700	+3.7%
Capped Value	100,000	103,700	+3.7%

The taxable value is then the lesser of the assessed value or capped value. In this example the capped value (103,700) is less than the assessed value (135,000). The capped value would then become your taxable value for 2007.

If a parcel transfers ownership in 2006, the taxable value would become uncapped for 2007. The assessed value, taxable value, and capped value will all be the same.

EXAMPLE:

	2006	2007	
Assessed Value	150,000	135,000	-10%
Taxable Value	100,000	135,000	+35%
Capped Value	100,000	103,700	N/A (Uncapped)