

## **What is Proposal A and how does it impact me?**

The failing economy and the crash of the real estate market that Michigan is experiencing has led many homeowners to take a second look at their property tax bills. Residents can't help but wonder how Michigan's tax system works.

Proposal A was added to the Michigan Constitution in 1994 by a vote of the people to address how property taxes are determined. Prior to the enactment of the Proposal A, the state constitution required that every property owner pay property taxes based on the fair market value of their property. While the system insured that everyone would pay their fair share, it could be very punishing to the individual taxpayer. Whenever housing markets escalated quickly, it was not unusual for some homeowners in the community to see their tax bill jump by 20 percent or more in one year.

### **Significant changes to the property tax system**

When Proposal A was approved, it contained two significant changes to the property tax system: The first was to significantly cut school property taxes and the second was a provision that significantly limited how quickly individual property tax bills could increase from year to year. Proposal A stated that the value of property used to calculate property taxes could not increase each year by more than the increase in inflation, or 5 percent, whichever is less, until the ownership of the property changes.

Property owners have seen the benefit from this valuation cap for years. Each year every property owner receives a statement from the township that indicates the property's State Equalized Value. This amount represents 50 percent of the current value of the property. The value is determined by the township's assessor, who is required to follow procedures established and monitored by the state. However, the more important number is the Taxable Value, which is the amount used to actually calculate property taxes. Any difference between the State Equalized Value and Taxable Value shows how Proposal A has limited your property taxes.

### **Inequity in the system**

While Proposal A protected individual property owners, it has created inequities. When a house is sold, the new owner must pay taxes on the full value of the property, with the same cap on future assessment increases. This means a person who has owned the same home for the last 14 years is likely paying much less in property taxes than their neighbor who just moved in three years ago, even though both homes may be identical.

The newest fairness issue has been exposed with the falling housing market. Our state law that implements Proposal A directs that the Taxable Value must increase by the rate of inflation any time the Taxable Value on a piece of property is less than its State Equalized Value. This occurs even if the value of the property is decreasing. This continues until the State Equalized Value and Taxable Value are equal,

at which point any further decline results in real property tax reductions. This leads to the question asked by many: Why did my property taxes go up when the value of my home just went down?

As administrators of the property tax system, the township can only point to the constitution and the decision made in 1994 by the residents of this state that a predictable property tax assessment was more important than an equitable assessment.

The economy is hitting everyone. Some property owners—generally those who have owned their homes for years—are seeing increases in their property tax bills and many are seeing real declines. Local governments also feel the strain and have been struggling for years to maintain services due to declining funding from the state. The expected decline in property tax collections—our most important revenue source—simply means we must also do more with less, just like our residents are doing. It doesn't diminish our responsibility to maintain a community that is a great place to live, work and raise our children. We intend to continue to do what we can to provide you with the services that you expect in a cost-efficient way.