

**AG PROPERTY ASSESSMENTS:
EXCLUSIONS FROM SALES DATA**

**House Bill 4702 (Substitute H-2)
First Analysis (12-2-03)**

**Sponsor: Rep. Bruce Caswell
Committee: Tax Policy**

THE APPARENT PROBLEM:

For the purposes of assessing property values for property taxes, the state uses a market-value approach that relies largely on the property's true cash value (that is, its market value). The General Property Tax Act defines "true cash value" to generally mean the purchase price of a parcel of property that could be obtained at a private (arms-length) sale. The act provides that in determining the true cash value, the local assessor shall consider the property's location, soil quality, present economic income of structures, and present economic income of the land if the land is being farmed, among others.

Assessing real property for the purposes of taxation is a three-step process that includes local assessment, county equalization, and state equalization. The intent of the equalization process is to assess a property at 50 percent of its true cash value and, therefore, provide a uniform assessed valuation within a given county and throughout the entire state. Assessors and equalization departments utilize sales ratio studies in making assessments and intracounty and statewide equalizations for particular classifications of property. These studies (which include a description of the property, its assessed value, and its purchase price) compare the assessed value and the sale price for each parcel of property sold.

Since the passage of Proposal A in 1994, there has been a limit on how much the assessment of a parcel of property can increase from one year to the next for the purpose of levying property taxes. (This is why property taxes are now based on "taxable value" rather than the "state equalized valuation".) Generally speaking, an assessment cannot increase by more than five percent or the rate of inflation, whichever is lower. However, when ownership of property is transferred, the assessment of property typically "pops up" to 50 percent of the market value (SEV).

The General Property Tax Act defines "transfer of ownership" for the purpose of revaluation and lists transactions that are included under that term and

transactions that are not counted as ownership transfers. In the case of transfers of qualified agricultural property, the transaction does not count as a transfer of ownership if the purchaser files an affidavit attesting that the property will remain as qualified agricultural land with the local assessor and the county register of deeds.

It is generally asserted that when agricultural property is sold to be converted to a non-agricultural use, that property is sold at a higher price than if it were to remain in agricultural use. Thus, when these sales are included in the sales ratio studies to determine assessed and equalized values of agricultural property, the values typically increase and do not accurately represent the true value of property remaining in agricultural use. Legislation has been introduced that would exclude these types of sales from the sales data studies.

THE CONTENT OF THE BILL:

The bill would amend the General Property Tax Act to specify that sales of agricultural property for which an affidavit was not filed attesting that the property subject to a transfer of ownership will remain as agricultural property would be excluded from the sales data when a city or township assessor, a county equalization director, or the State Tax Commission conducted sales ratio studies and appraisals to assess real property classified as agricultural real property. However, sales data excluded from the sales ratio study could be included in a sales study or appraisal if both the local assessor and the county equalization director agreed to include the sales data.

MCL 211.8 and 211.27

FISCAL IMPLICATIONS:

The House Fiscal Agency notes that without knowing which sales would be excluded, it is not possible to determine a fiscal impact. (11-24-03)

ARGUMENTS:**For:**

For some time now, there has been concern in the agricultural community that agricultural property should be valued at its current use, rather than its highest and best use. Indeed this was the subject of a number of bills during the previous two legislative sessions designed to tax farmland based on its agricultural use value. This bill, in a way, tries to achieve that same goal of assessing agricultural land based on its use for agricultural purposes rather than its development value, by only looking at sales data of agricultural property that will remain in agricultural use.

Currently, agricultural property, like other property classifications, is assessed at its true cash value (market value), based, generally speaking, on its highest and best use. To change that would require a constitutional amendment. This means agricultural property that is close to urban and suburban communities or near open spaces being developed is assessed (and sold) at the value it has to those who desire to purchase it not for its agricultural uses, but for residential, commercial, or industrial uses. This drives up the assessed value of agricultural land (though the actual taxable value is still subject to constitutional limitations). So, if those types of transfers are excluded from sales studies, agricultural property sales data will only include sales of agricultural property remaining in agricultural use and not sales of property that will eventually be used to construct a housing complex or a strip-mall. The result is a set of sales data that more accurately reflects actual agricultural property sales, which has the effect of restraining annual increases in the property's assessed value.

For example, suppose there are two parcels of agricultural property sold for development that have a sales ratio of 30 percent (meaning that the assessed value is 30 percent of the sale price) and there are two parcels of agricultural property that will remain in agricultural use and have a sales ratio of 45 percent (meaning that the assessed value is 45 percent of the sale price). The average ratio for all four parcels is 37.5 percent. However, the optimum ratio is 50 percent, which means that a ratio other than 50 percent must be adjusted to equal the 50 percent mark. In this instance, the property values are under assessed by 12.5 percent and must be increased by that percentage in order to meet the 50 percent mark. However, looking only at the agricultural property that will stay in agricultural use, the property is only

under assessed by five percent. In this example, then, the assessed value would be adjusted upward by five percent rather than 12.5 percent.

For:

The substitute version of the bill adds a provision that states that the local assessor and the county equalization director may include sales data or appraisals that would otherwise be excluded under the provisions of the bill if they both agree to do so. This is necessary because, reportedly, some farmers refuse to file the affidavit even though they will continue to use the land for agricultural purposes. This provision, then, would allow the sales of these properties to be included in the sales study.

Against:

Under the current system, the local assessments amongst the various cities and townships within a county are equalized within the county, and then equalized on a statewide basis by the State Tax Commission. The bill, however, really turns the equalization process on its head. First, it is not entirely clear what happens if a local assessor agrees to include a sale and the county equalization director does not, or vice versa. Second, the bill essentially provides that the State Tax Commission, in equalizing assessment values, can only use a sale if the county equalization director and the local assessor agree to it. Is this appropriate? How can assessments be equalized among the counties and the state if sales that ought to be included aren't actually included?

POSITIONS:

The Michigan Farm Bureau supports the bill. (12-1-03)

The Michigan Townships Association supports the bill. (12-1-03)

The Michigan Assessors Association is neutral on the bill. (12-1-03)

The Department of Treasury opposes the bill. (12-1-03)

Analyst: M. Wolf

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.