Legislative Analysis

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ADJUSTMENT TO TAXABLE VALUE

House Bill 4128
Sponsor: Rep. Richard Hammel
Committee: Government Operations

Complete to 2-13-09

A SUMMARY OF HOUSE BILL 4128 AS INTRODUCED 2-4-09

The bill would amend the General Property Tax Act, generally speaking, to specify that if the SEV of a parcel of property had increased from one year to the next by less than both inflation and five percent, then its taxable value would be adjusted up or down based on the percentage change in SEV.

Taxable value is the factor that determines how much a property owner pays in property taxes (taxable value times the tax rate). *SEV* is based on the property's market value and is supposed to equal 50 percent of market value. Currently, the taxable value of a parcel of property held by the same owner cannot increase from one year to the next by more than the greater of the rate of inflation or five percent. This is known as the assessment cap. (When property is sold, with some exceptions, the cap comes off and taxable value "pops up" to the SEV.) The assessment cap, over time, can lead to the taxable value being far lower than the SEV on a parcel of property. It also means, however, that taxable value can increase in a year when the SEV (based on market value) has decreased. (But taxable value can never exceed SEV.)

Under House Bill 4128, for the 2009 tax year and subsequent tax years, taxable value would increase or decrease based on the change in SEV. If the SEV of a property had increased by less than both inflation and five percent, then the taxable value would be adjusted up or down based on the percentage change in SEV.

Under the bill, the current year taxable value would be equal to the previous year's taxable value multiplied by a fraction, the numerator of which is the current year SEV and the denominator of which is the previous year's SEV. (The formula would also take into account any additions or losses to the property.)

(Thus, in a year in which inflation is four percent, if SEV increased by three percent, taxable value would increase by three percent, but if SEV declined by three percent, taxable value would decline by three percent. Presumably, this would mean that a local unit of government would have to calculate the change in SEV parcel by parcel rather than applying a statewide inflation factor to the taxable value of all parcels.)

MCL 211.27a

FISCAL IMPACT:

House Bill 4128 would reduce State Education Tax revenue and local property tax revenue (including the local 18-mill non-homestead assessment earmarked to local schools) by an unknown amount.

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