

## WHAT IS A PRINCIPAL RESIDENCE EXEMPTION?

If you own and occupy your home as your **principal residence**, it may be exempt from a portion of local school operating taxes. You can review your percentage of principal residence exemption on your "Notice of Assessment".

To claim an exemption for the current year a "Principal Residence Exemption Affidavit" must have been completed and filed with your city or township by May 1<sup>st</sup> of the current year.

### EXAMPLES

#### A: You purchased a new home.

Last year you purchased a new home valued at \$200,000 (true cash value) with Assessed Value (AV) and State Equalized Value (SEV) both at \$100,000 and a Taxable Value (TV) of \$80,000.

A study of sales in the neighborhood shows true cash value of the property has increased to \$220,000 for the current year.

#### Current Year:

Assessed Value (AV) is	\$110,000
(1/2 of \$220,000)	
SEV (tentative) is	\$110,000

Value is "uncapped" the year following an ownership transfer (sale) of a property, the Taxable Value will be the same as the State Equalized Value.

Taxable Value (TV) is	\$110,000
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#### B: You made no changes to your property.

Last year your home valued at \$200,000 (true cash value) had a \$100,000 State Equalized Value (SEV) and a Taxable Value (TV) of \$80,000.

#### *Increasing Assessed/SEV Value*

A study of sales in the neighborhood shows your property true cash value has increased to \$220,000 for the current year.

#### Current Year:

Assessed Value (AV) is	\$110,000
SEV (tentative) is	\$110,000
Capped Value (CV) is	\$ 82,960
(\$80,000 x 1.037)*	
Taxable Value is the lesser of SEV or CV	_____
Taxable Value (TV) is	\$ 82,960

#### *Decreasing Assessed/SEV Value*

A study of sales in the neighborhood shows your property true cash value has decreased to \$180,000 for the current year.

#### Current Year:

Assessed Value (AV) is	\$90,000
SEV (tentative) is	\$90,000
Capped Value (CV) is	\$82,960
(\$80,000 x 1.037)*	
Taxable Value is the lesser of SEV or CV	_____
Taxable Value (TV) is	\$ 82,960**

**\*\*A decrease in SEV will not create a decrease in the capped value. Taxable value is the lesser of capped value or SEV.**

#### C: You added a family room to your home.

Last year your home valued at \$200,000 had a \$100,000 SEV and a Taxable Value (TV) of \$80,000. You added a family room addition valued at \$40,000 (true cash value).

A study of sales in the neighborhood shows the true cash value of your property (with the addition) has increased to \$240,000.

#### Current Year:

Assessed Value (AV) is	\$120,000
SEV (tentative) is	\$120,000
Capped Value (CV) is	\$102,960
[(80,000 x 1.037)* + 50% of \$40,000]	
Taxable Value is the lesser of SEV or CV	_____
Taxable Value (TV) is	\$102,960

**\*Inflation Rate Multiplier is determined annually by the State Tax Commission. A 1.037 multiplier (3.7% increase) is used in the above examples.**

# A Guide To Your Property Taxes And Proposal "A"



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## PROPOSAL “A”: WHAT ARE PROPERTY TAXES BASED ON?

On March 15, 1994 Michigan voters approved the constitutional amendment known as Proposal “A”.

Prior to Proposal “A” property tax calculations were based on Assessed Value.

Proposal “A” established “Taxable Value” as the basis for the calculation of property taxes.

Increases in Taxable Value (following adjustments for additions or losses) are limited to the percent of change in the rate of inflation or 5%, whichever is less.

The limit on Taxable Value increase does not apply to a property in the year following a transfer of ownership (sale).

## WHAT IS ASSESSED VALUE?

The Michigan Constitution requires property be uniformly assessed at 50% of the usual selling price, often referred to as True Cash Value. Each tax year, the local assessor determines the Assessed Value (AV) of each parcel of real property based on the condition of that property on December 31 (Tax Day) of the previous year.

If property values are increasing in your neighborhood, your Assessed Value will likely increase.

## WHAT IS STATE EQUALIZED VALUE (SEV)?

The State Equalized Value (SEV) is the Assessed Value as adjusted following county and state equalization.

The County Board of Commissioners and State Tax Commission must review local assessments and adjust (equalize) them if they are above or below the constitutional 50% level of assessment.

## WHAT IS “CAPPED VALUE”?

“Capped Value” is the value established when the prior year Taxable Value, with adjustments for additions and losses, is multiplied by the Inflation Rate Multiplier (IRM). The multiplier is capped and cannot be greater than 1.05 (1 + 5%). It represents the change in the rate of inflation during the previous year. The final product is Capped Value (CV).

The Capped Value limitation on Taxable Value does not apply if you purchased your home last year.

### Capped Value =

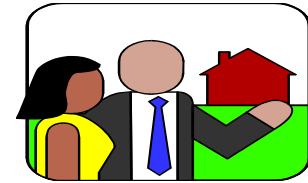
$$(\text{Prior TV} - \text{Losses}) \times (1 + \text{IRM}^*) + \text{Additions}$$

\* Percent of change in the rate of inflation or 5%, whichever is less, expressed as a multiplier

## WHAT IS TAXABLE VALUE?

Taxable Value (TV) is the lesser of State Equalized Value (SEV) or Capped Value (CV) unless the property experienced a Transfer of Ownership in the prior year.

## WHAT HAPPENS WHEN YOU PURCHASE A HOME?



When a property (or interest in a property) is transferred, the following year’s SEV becomes that year’s Taxable Value (TV). In other words, if you purchase property, your Taxable Value the following year will be the same as the SEV. The Taxable Value will then be “capped” again in the second year following the transfer of ownership.

## NOTICE OF ASSESSMENT

Each year, prior to the March meetings of the local board of review, informational notices are mailed. The “Notice of Assessment, Taxable Valuation, and Property Classification” also includes State Equalized Value, the percent of exemption as a Principal Residence or Qualified Agricultural Property and whether or not there was an Ownership Transfer.

## HOW ARE PROPERTY TAXES CALCULATED?

### Property Taxes =

$$\text{Taxable Value} \times \left[ \text{Your Local Millage Rate} \right]$$