STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

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GOVERNOR

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DATE: December 9, 2003

TO: Assessors
Equalization Directors

FROM: Dennis W. Platte, Administrator
Property Tax Division

SUBJECT: Educational Materials Regarding Equalization New and Loss and "Headlee" and Capped Value Additions and Losses.

Attached is a draft document which contains part of the materials that, when complete, will be the course materials for training on Equalization New and Loss and "Headlee" and Capped Value Additions and Losses. This was discussed in a memo to assessors and equalization directors dated October 1, 2003.

The remaining materials are still being reviewed and will be forwarded as soon as they are complete.

Thank you for your patience.

New Loss Adjustment Losses Additions Answers

For the purpose of these examples, unless otherwise stated, the following data apply:

There are no Transfers of Ownership.

CPI for 2002 capped value is 1.032.	AV = assessed value (tentative SEV)
CPI for 2003 capped value is 1.015.	SEV = state equalized value
CPI for 2004 capped value is 1.023.	CV = capped value
	TV = taxable value

Tentative Equalization Factors for the Agricultural, Commercial, Industrial, Timber – Cut Over, Developmental, and Personal Property classifications are1.00000. For Residential the factor is 1.05264 (the assessor makes appropriate adjustments to achieve a Final Equalization Factor of 1.00000).

Show the 2002 AV, 2002 TV, 2003 AV, 2003 TV, and L-4021 figures for each of the following examples:

Basic Formulas:

Capped Value = (Previous TV – Losses) X Lesser of CPI or 1.05 + Additions
Taxable Value = Lessor of Capped Value or State Equalized Value
Generally, Capped Value Losses = TCV of Loss for prior year X (Prior TV of Loss ÷ Prior TCV of Loss)

Plus Adjustment

1. Equalization study indicates average residential classification assessment ratio for unit is 47.50. Unfortunately, the assessor uniformly increases all assessments by factoring the assessment roll. The previous assessment is $45,000; the previous taxable value is $30,425.

   2003 AV = 45,000 X 1.05264 = 47,369
   2003 Capped Value = 30,425 X 1.015 = 30,881
   Equalization Plus Adjustment = 45,000 X 0.05264 = 2,369

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	45,000	47,369	0	2,369	0
CV	30,425	30,881	0	0	0
TV	30,425	30,881	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

Absent a ‘transfer of ownership’, the current taxable value is the lessor of the current ‘capped value’ and the current ‘state equalized value’. In the year following a ‘transfer of ownership’, the current taxable value is the same as the current ‘state equalized value’.

Note that this problem says **unfortunately, the assessor uniformly increases all assessments by factoring the assessment roll**. The State Tax Commission does not recommend the factoring of the assessment roll. This act magnifies any inequity that exists in the assessment roll and does not take into account the different market factors that affect properties. Waterfront properties do not normally change in value at the same rate as non-waterfront properties. Older or poorly kept properties do not change at the same rate as newer or well-maintained properties.

Note that the equalization plus adjustment does not equal the capped value increase. The capped value calculation is strictly a mathematical equation and the result of the equation is compared to the state equalized value to determine the taxable value (lower of the CV or the SEV). Also note that at this point in the process, only the tentative SEV is known. If the County or the State adds or reduces value during County or State Equalization, the taxable value determined by the assessor and March Board of Review may need to be changed.

2. A new manufacturing plant is built in the township increasing the demand for employees by a significant number. The sales used in the equalization study recognize the upward pressure for housing as a result of the new plant. No physical change has been made to the following property. Previous assessed value is $45,000 and the current assessed value is $50,000. The previous taxable value is $31,629.

   Equalization Plus Adjustment = 50,000 – 45,000 = 5,000
   2003 Capped Value = 31,629 X 1.015 = 32,103

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	45,000	50,000	0	5,000	0
CV	31,629	32,103	0	0	0
TV	31,629	32,103	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

3. A new freeway is built near a neighborhood improving access and increasing the desirability of the homes in that area. Previous assessed value is $65,000 and current assessed value is $75,000. The previous taxable value is $65,000. No other changes to the property are evident.

2003 Equalization Plus Adjustment = 75,000 – 65,000 = 10,000
2003 Capped Value = 65,000 X 1.015 = 65,975

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	65,000	75,000	0	10,000	0
CV	65,000	65,975	0	0	0
TV	65,000	65,975	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

4. The 2002 equalization study indicates an assessment ratio of 40.00%. What does the assessor need to do in 2003 to assess a property worth $150,000 that was assessed in 2002 at 40% of TCV? The 2002 taxable value was $40,000. The assessor brings the assessment up to 50% for 2003 (assume no increase in true cash value and no physical changes to this property).

   2002 AV (BOR) = 150,000 TCV X 0.40 = 60,000
   2003 AV (BOR) = 150,000 TCV X 0.50 = 75,000
   2003 Equalization Plus Adjustment = 75,000 – 60,000 = 15,000
   2003 Capped Value = 40,000 X 1.015 = 40,600

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	60,000	75,000	0	15,000	0
CV	40,000	40,600	0	0	0
TV	40,000	40,600	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

5. The local school system retired a large bond and the millage within that district dropped from 45 mills to 38 mills two years ago. The equalization study indicates properties in this school system command 10% more than in neighboring school districts within the same township and recognizes this increase in value in the starting ratio. The assessor increased the assessment from $75,000 to $90,000. There were no physical changes to the property. The previous taxable value is $68,420.

   2003 Equalization Plus Adjustment = 90,000 – 75,000 = 15,000
   2003 Capped Value = 68,420 X 1.015 = 69,446

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	75,000	90,000	0	15,000	0
CV	68,420	69,446	0	0	0
TV	68,420	69,446	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

6. Three sections of land were changed from single family residential zoning to multi-family zoning. The equalization department conducted a study and concluded that the land value increased from $5,000 per acre to $20,000 per acre. A five-acre parcel in that area was assessed for $12,500. The assessor updated the assessment to $50,000. The previous taxable value is $7,000.

2003 Equalization Plus Adjustment = 50,000 – 12,500 = 37,500
2003 Capped Value = 7,000 X 1.015 = 7,105

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	12,500	50,000	0	37,500	0
CV	7,000	7,105	0	0	0
TV	7,000	7,105	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

7. Five similar properties on Second Avenue are assessed at $30,000. A sixth property with the same characteristics was assessed for $25,000. The assessor increased the assessment of this property by $5,000 to equal the assessments reported for the other similar properties. The previous taxable value is $24,500.

2003 Equalization Plus Adjustment = 30,000 – 25,000 = 5,000
2003 Capped Value = 24,500 X 1.015 = 24,867

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	25,000	30,000	0	5,000	0
CV	24,500	24,867	0	0	0
TV	24,500	24,867	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

8. The assessor of a fast growing area has made it a practice since 1995 not to value decks and walkways in the assessments. The equalization department has always used a 24-month sales study in this unit. For 2003 the assessor adds the value of the decks and walkways and indicates them as Equalization New, Taxable Value Additions, and Headlee Additions on the Form L-4021.

How does the Equalization Department handle this situation?

The Equalization Department will change the Form L-4021 by reporting the value attributable to the Equalization New of the decks and walkways as Equalization Plus Adjustment.

Note: The amounts reported as Capped Value Addition and as Headlee Additions attributable to the decks and walkways by the assessor are correct because they were never included in the Taxable Value of these properties. This is done because past equalization studies have already included the value of the decks and walkways in the beginning 2003 value. The equalization department will then submit to the State Tax Commission a Form L-4022 with the revisions. These revisions will form the basis of the Form L-4023. For years following the year that decks and walkways are first included in the assessment, newly constructed decks and walkways must be added as Equalization New, as Capped Value Additions, and as Headlee (rollback) Additions.

Note: It is the position of the State Tax Commission that the equalization department DOES NOT have the authority to correct a Board of Review's determination of capped and taxable value.

Minus Adjustment

9. The equalization department sales study indicates that the average assessment level in a class is 55.00%. The assessor changes the assessment of a parcel from $65,000 to $58,000 to reflect the results of the study. The previous taxable value is $60,000.

   2003 Equalization Minus Adjustment = 58,000 – 65,000 = -7,000
   2003 Capped Value = 60,000 X 1.015 = 60,900
   Note: the tentative SEV is lower than capped value, therefore SEV becomes TV

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	65,000	58,000	0	-7,000	0
CV	60,000	60,900	0	0	0
TV	60,000	58,000	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

You will note that there was $7,000 equalization minus adjustment however the capped value increased $900. Capped value is always determined strictly by a mathematical formula. The capped value is then compared to the SEV to determine the taxable value. At this point in the process, only the tentative SEV is known. If the County or the State adds or deletes value during County or State Equalization, the taxable value determined by the assessor and March Board of Review may need to be changed.

10. The major employer, a furniture manufacturer, moves its operations out of state. The result is a weakening of the market for residential property that is measured by the sales used in the equalization study. The assessor changes the assessment of a home that was completed five years ago from $75,000 to $60,000. The previous taxable value is $51,226.

2003 Equalization Minus Adjustment = 60,000 – 75,000 = -15,000
2003 Capped Value = 51,226 X 1.015 = 51,994

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	75,000	60,000	0	-15,000	0
CV	51,226	51,994	0	0	0
TV	51,226	51,994	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

This is an example demonstrating that because there is equalization minus adjustment, it does not follow that there must also be capped value losses or a reduction in the taxable value. The capped value formula is mathematical. The losses or additions resulting from that calculation are independent of equalization adjustment. The resulting capped value is compared to the SEV and taxable value becomes the lessor of the two.

11. The zoning in an area changes from high-density single family zoning to single family zoning requiring 20-acre minimum building sites. Two parcels of land in this area sold. Due to the zoning change, the assessor changes the assessment for a parcel of vacant land in this area from $30,000 to $20,000. The previous taxable value is $25,000.

2003 Equalization Minus Adjustment = 20,000 – 30,000 = -10,000
2003 Capped Value = 25,000 X 1.015 = 25,375
Note: the tentative SEV is lower than the capped value, therefore the TV is the tentative SEV.

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	30,000	20,000	0	-10,000	0
CV	25,000	25,375	0	0	0
TV	25,000	20,000	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

12. The local school district funding is decreasing due to falling enrollment resulting in lower state aide. Class sizes are increased as teachers are released to reduce cost; sports and other extra curricular activities are

eliminated; and bus routes are extended. Demand for homes in this school district decreases as problems continue to build. The equalization study includes a representative sample of parcels in this area. The assessor reduces the assessment of a home $4,500 (no physical change to the property). The previous assessed value is $50,000 with a previous taxable value of $40,000.

2003 Equalization Minus Adjustment = 45,500 – 50,000 = -4,500
2003 Capped Value = 40,000 X 1.015 = 40,600

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	50,000	45,500	0	-4,500	0
CV	40,000	40,600	0	0	0
TV	40,000	40,600	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

13. The assessor values vacant ten-acre parcels at $20,000 TCV each. During a review of the assessment roll the assessor discovers a ten-acre parcel valued at $25,000 TCV. After checking for differences, it is determined that this parcel should also be valued at $20,000 TCV. The assessment is lowered from $12,500 to $10,000. The previous taxable value is $11,225.

2003 Equalization Minus Adjustment = 10,000 – 12,500 = -2,500
2003 Capped Value = 11,225 X 1.015 = 11,393
Note: the tentative SEV is lower than the capped value, therefore the TV is the tentative SEV.

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	12,500	10,000	0	-2,500	0
CV	11,225	11,393	0	0	0
TV	11,225	10,000	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

Equalization New

14. The owner of a forty-acre parcel requested the assessor create four equal two-acre parcels and leave the remaining thirty-two acres in a fifth parcel. The assessor complies and follows State Tax Commission instruction by retiring the original parcel number and creating five new (Child) parcels. There is no transfer of ownership. The original parcel was assessed in 2002 at $40,000 ($80,000 TCV or $2,000/acre). All of the land in this parcel was similar in value for 2002 and was valued at $2,000 per acre

TCV. The new two-acre parcels are assessed at $10,000 (i.e. $5,000/acre) each in 2003 and the thirty-two acre parcel is assessed at $32,000 (i.e. $1,000/acre) in 2003. The previous taxable value is $35,000.

2003 Equalization Loss is the entire original parcel
2003 Headlee Losses – None, there was no physical change to the property.

Parent Parcel

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	40,000	0	40,000	0	0
CV	35,000	N/A	0	0	0
TV	35,000	0	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

Note that there are no physical changes to this property. Since the 2003 SEV will be zero, which causes the 2003 TV to become zero, the 2003 capped value of $35,525 will be muted.

STC bulletin 14 of 1996 on page 3 says "For example description splits, platting of subdivision, and combination of descriptions create new parcels which do not have a taxable value for the prior year. The assessor must determine the taxable value for the prior year for the newly created parcels." This means that for splits, the assessor must allocate the parent parcel's taxable value for the immediately preceding year to each child parcel. For the 2003 capped value formula, the allocated amount becomes the child parcel's 2002 taxable value.

Please note that for the 2003 capped value formula, it is not proper to assign zero to prior year's taxable value and call the allocated amount a capped value addition. This improper practice would often result in the capped value addition also being treated as additions for rollback purposes. STC Bulletin 18 of 1995, Heading 5a states "Platting, splits, combinations, and class changes are categorized as equalization New and Loss but are NOT Additions and Losses for Capped Value, "Headlee", and Truth in Taxation calculations."

The Child Parcels are:

14a 2003 AV (BOR) = 5,000 X 2 acres = 10,000
2002 TV = 35,000 X (4,000 ÷ 80,000) = 1,750

Note: The allocation of the prior year's taxable value is based on the ratio of the prior year's TCV of the child parcel to the prior year's TCV of the entire parent parcel. The 2002 TCV was $2,000/acre or $2,000 X 2 acres = $4,000 allocated TCV. $2,000 X 40 = $80,000 total TCV

2003 Capped Value = (1,750 – 0) X 1.015 + 0 = 1,776

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	0	10,000	0	0	10,000
CV	0	1,776	0	0	0
TV	0	1,776	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

<u>Child Parcels 14b through 14d are the same as 14a above</u>

14e 2003 AV (BOR) = 1,000 X 32 acres = 32,000
2002 TV = 35,000 X (64,000 ÷ 80,000) = 28,000
2003 CV = (28,000 – 0) X 1.015 + 0 = 28,420

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	0	32,000	0	0	32.000
CV	0	28,420	0	0	0
TV	0	28,420	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

Note: Since there was no transfer of ownership involved, the total taxable value of the child parcels must equal the parent parcel taxable value, adjusted by the CPI. (Assuming no changes or additions)

Proof: Previous TV X CPI = 35,000 X 1.015 = 35,525
Current TV = (1,776 X 4) + 28,420 = 35,524 (difference due to rounding, **taxable values must be rounded down**)

15. The assessor made a complete review of the agricultural classification. During the review process the assessor determines that the highest and best use for a parcel of land is for recreational use. The assessor changes the classification from Agricultural to Residential. The previous assessment was $25,000 and the new assessment is $30,000. The previous taxable value is $20,000.

    2003 Equalization Loss = 25,000 (the 2002 AV (BOR) value of the Agricultural Class)
    2003 Capped Value = 20,000 X 1.015 = 20,300
    2003 Equalization New = 30,000 (50% of the true cash value as a Residential use property.

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	25,000	30,000	25,000 (ag)	0	30,000 (res)
CV	20,000	20,300	0	0	0
TV	20,000	20,300	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

There are no Headlee Losses or Additions because there was no physical change in the property. There are no Capped Value Losses. Recall that a 'transfer of ownership' does not, itself, result in capped value additions or Headlee additions. However, it must result in an uncapping of the following year's taxable value.

The Equalization Loss occurs in the Agricultural Classification, appears on Form L-4021 (606), and is carried through to Forms L-4022 (607) and L-4023 (2164). The Equalization New applies to the Residential Classification, appears on Form L-4021, and is carried through to Forms L-4022 and L-4023.

16. Last year's (2002) March Board of Review granted a 40% partial poverty exemption. The 2002 assessed value was reduced from $50,000 to $30,000 and the taxable value was reduced from $40,000 to $24,000. Assume the assessed value is the same as the SEV in 2002 and 2003.

    2002 AV = 30,000
    2002 TV = 24,000
    2002 Equalization Loss = 20,000 (due to exemption)
    2002 Headlee Losses = 16,000 (due to exemption)

    Assume the assessments increased by 6% in 2003 due to market value increases. Calculate the assessed value, capped value, and tentative taxable value for 2003.

    2003 AV and SEV = 50,000 X 1.06 = 53,000
    2003 CV Additions = (40,000 X 1.015) – (24,000 X 1.015) = 40,600 – 24,360 = 16,240
    2003 CV = (24,000 – 0) X 1.015 + 16,240 = 40,600
    2003 TV = 40,600 (prior to reductions for 2003)

16a. Last year's (2002) Board of Review granted a 100% poverty exemption. The 2002 assessed value was reduced from $50,000 to 0 and the taxable value was reduced from $40,000 to 0. Assume the assessed value is the same as the SEV in 2002 and 2003.

2002 AV = 0
2002 TV = 0
2002 Equalization Loss due to exemption is 50,000
2002 Headlee Losses due to exemption is 40,000

Assume assessments increase by 6% in 2003 due to market value increases. Calculate assessed value, capped value and tentative taxable value for 2003.

2003 AV (and SEV) = 50,000 X 1.06 = 53,000
2003 CV Addition = (40,000 X 1.015) – (0 X 1.015) = 40,600
2003 CV = (0 – Losses) X 1.015 + 40,600
2003 TV = 40,600
2003 Equalization New = 53,000

If the 2003 Board of Review again grants a 100% poverty exemption, the 2003 Equalization New = 0 and the 2003 Headlee Additions and Losses = 0.

The taxable value of property returning to the roll from an exempt status (in the case of #16 a partial poverty exemption) often is less than the SEV of added value. The capped value addition for property returning to the roll from a poverty exemption is the "taxable value the entire parcel of property would have had if that property had not been exempt, minus the product of the entire parcel's taxable value in the immediately preceding year and the lessor of 1.05 and the inflation rate." The assessor is required to maintain a record of 'what the TV would have been had no exemption been granted' due to poverty exemptions that may be granted in consecutive years. (See pages 7 and 8 of STC Bulletin 3 of 1995.)

17. A new house was built on property whose 2002 assessment, as vacant land, was $15,000 and a taxable value of $10,000. The assessor adds $40,000 to the 2003 assessment. $39,000 of the increase is New Construction, $1,000 of the increase is Land Value.

2003 Equalization Plus Adjustment = 1,000 (land value increase)
2003 Equalization New = 39,000 (new construction)
2003 Capped Value Addition = 39,000 (SEV of Additions)
2003 Capped Value = (10,000 X 1.015) + 39,000 = 49,150
2003 Headlee Additions = 39,000 (new construction)

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	15,000	55,000	0	1,000	39,000
CV	10,000	49,150	0	0	39,000
TV	10,000	49,150	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	39,000

18. The assessor discovers that a property built in 2001 was listed and assessed as having one bathroom while it actually has two bathrooms. Notations on the record card support the omission. Because of the discovery, the assessor adds $1,250 to the 2003 assessment. If the bathroom had been assessed in 2002, its assessed value would have been $1,200. The previous assessment (2002) was $35,000 and its taxable value was $22,500. Assume that market value has increased 4% for the 2003 assessment.

2003 Equalization New = 1,250
2003 Capped Value Addition = 1,200 X 1.015 = 1,218
2003 Capped Value = (22,500 – 0) X 1.015 + 1,218 = 24,055
2003 Assessed Value = 35,000 X 1.04 + 1,250 = 37,650

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	35,000	37,650	0	1,400	1,250
CV	22,500	24,055	0	0	1,218
TV	22,500	24,055	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	1,218

19. The property owner built a family room addition on his home. The assessor determines that the addition has added $25,000 true cash value to the property. Before construction the assessed value was $45,000 and the previous taxable value was $38,000. Assume that no value increase is present due to general market factors.

2003 Equalization New = 25,000 X 0.50 = 12,500
2003 Capped Value Additions = 12,500
2003 Capped Value = (38,000 X 1.015) + 12,500 = 51,070
2003 AV (BOR) = 45,000 + (25,000 X 50%) = 57,500

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	45,000	57,500	0	0	12,500
CV	38,000	51,070	0	0	12,500
TV	38,000	51,070	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	12,500

20. A property owner is building a house on his property. The previous tax year the home was 80% complete and the assessment was listed as $100,000, $95,000 taxable value. The house was completed in April of last year. The assessor determined that the amount of assessment

represented by completion of the construction is $25,000. Assume that no value increase is present due to general market factors.

2003 Equalization New = 25,000
2003 Capped Value Addition = 25,000
2003 Capped Value = (95,000 X 1.015) + 25,000 = 121,425

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	100,000	125,000	0	0	25,000
CV	95,000	121,425	0	0	25,000
TV	95,000	121,425	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	25,000

21. A developer has owned a parcel of land classed residential for five years. A plat was filed for this eighty-acre parcel in November of 2002. It includes 40 residential parcels that do not require improvements for sewer, water, streets, etc. The eighty-acre parcel was assessed in 2002 for $60,000 with a $43,072 taxable value. Each of the 40-platted lots has a market value of $20,000 based on similar developments in the area. Marketing of the lots is planned to start later in 2003 or early 2004. The assessor does not place each lot on the roll separately but instead includes all lots under the original parcel identification number.

2003 Equalization New = ((40 Lots X 20,000) X 0.5) – 60,000 = 340,000
2003 Capped Value = 43,072 X 1.015 = 43,718
Note: Since there is no physical change (public improvements not added, yet), there are no CV or Headlee Losses or Additions.

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	60,000	400,000	0	0	340,000
CV	43,072	43,718	0	0	0
TV	43,072	43,718	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

Capped value additions do not result from the platting, splitting, or combining of a parcel of land. There are no Headlee Additions on this property; there were no physical changes. The taxable value is affected only by the capped value formula.

22. This problem illustrates the procedure to follow when there is an increase in value due to platting which does not affect the capped value additions or Headlee Additions plus physical improvements to the site that do affect the capped value additions and Headlee Additions (see STC Bulletin 3 of 1995).

A developer has owned a parcel of land classed residential for 5 years. A plat was filed for this 80-acre parcel in early 2002. It includes 200 residential parcels. The developer has installed streets, sidewalks, electric distribution system, water and sewer. Examination of cost data and market data from other recently completed subdivisions causes the assessor to determine that the new improvements add $25,000 in assessed value per lot. Lot values are determined to be $35,000 assessed value each. Remember that there are no splits involved and the assessor values the entire parcel as a single entry on the assessment roll.

2002 AV = 60,000
2002 TV = 43,072
Equalization New = (200 Lots X 35,000) – 60,000 = 6,940,000
Capped Value Addition = 200 Lots X 25,000 = 5,000,000
Capped Value = (43,072 – 0) X 1.015 + 5,000,000 = 5,043,718
Headlee Additions = 5,000,000

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	60,000	7,000,000	0	0	6,940,000
CV	43,072	5,043,718	0	0	5,000,000
TV	43,072	5,043,718	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	5,000,000

23. The assessor discovered a garage that was built in 2001 without benefit of a building permit and was omitted from the 2002 assessment roll. The assessor petitioned the State Tax Commission through MCL 211.154 to add $10,000 to the 2002 assessment and tax roll. The State Tax Commission, on February 11, 2003 issued an order supporting the assessor's position. Before the action of the State Tax Commission, the 2002 assessed value was $50,000 and the taxable value was $40,000. To simplify the problem, assume that no value increase is present due to general market factors.

2002 Revised Assessed Value = 50,000 + 10,000 = 60,000
2002 Revised Taxable Value = 40,000 + 10,000 = 50,000
2003 Equalization New = 10,000
2003 Capped Value = (50,000 - 0) X 1.015 + 0 = 50,750

	Final 2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	60,000	60,000	0	0	10,000*
CV	50,000	50,750	0	0	0
TV	50,000	50,750	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	10,000*

Note: 2002 BOR value is fixed. The STC order causes a revised tax bill to be calculated and a supplemental bill to be sent to the property owner. The 2003 capped value formula will begin with the revised taxable value.

* Although the Final 2002 AV is $60,000, the Form L-4021 shows values for each year as of the close of the March Board of Review. So, the 2002 AV will appear as $50,000, supporting the need for 10,000 Equalization New. Since the current capped value is calculated using the prior year's final taxable value, there are no CV additions for the 2003-year. However, since the garage value has not previously been included in the rollback calculation, there must be Headlee and Truth in Taxation additions for 2003. Similar procedures are to be followed for changes ordered by the July or December Board of Review and the Michigan Tax Tribunal provided the changes constitute additions such as the missing garage.

24. The owner of an office has filed a Personal Property Statement both for the year 2002 and the year 2003. There were no acquisitions of new property during the year 2002. The costs reported by the taxpayer are identical for both years (as to amount and acquisition year), but in 2002 the property was reported in Section D of form L-4175 and in 2003 the property was reported in Section B. Investigation discloses that the identity of the property has not changed and that Section B is the correct Section for reporting the property. In 2002 the SEV and Taxable value for the property was $26,000. In 2003, the calculated SEV is $31,000.

    2003 Equalization New = 5,000
    2003 CV Addition = 5,000 (see page 8 of STC Bulletin 12 of 1999)
    2003 Headlee Additions = 5,000

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	26,000	31,000	0	0	5,000
CV	26,000	0	0	N/A	0
TV	26,000	31,000*	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	5,000*

The incorrect report resulted in omitted property which, in turn, is treated as Headlee Additions. Notice that omitted property is considered a "move-in" (see page 3 of STC Bulletin 19 of 2002). Notice also that the Assessor should file a petition with the State Tax Commission to add omitted property for 2002, pursuant to MCL 211.154.

*Note: One could argue that the amount of the addition for Headlee purposes is more than $5,000 because it should be calculated after the current year's depreciation has been taken. However, the result may be additional precision, which is not warranted by the situation.

25. Same facts as 24 above, except the property has been reported in Section B for the 2003 assessment year arising from the fact that the Assessor directed such reporting in light of a determination from the State Tax Commission that Section B was the correct section for reporting, starting in 2003, rather than Section D.

2003 Equalization New = 5,000
2003 Capped Value = No Additions or Losses
2003 CV = (26,000 – 0) X 1.015 + 0 = 26,350
2003 Headlee Additions = No Additions or Losses

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	26,000	31,000	0	0	5,000
CV	26,000	26,350	0	N/A	0
TV	26,000	26,350	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

For Equalization, the practice is to net all assessment changes from one year to the next. As the result, the 5,000 increase in SEV that has occurred is treated as Equalization New. However, since the Assessor's Investigation discloses that the identity of the property has not changed between 2002 AND 2003, the increase in value for the 2003 year is neither Capped Value additions nor Headless Additions. The increase in value was occasioned by the implementation of a more refined valuation method, not by the appearance of property that was not valued the previous year.

26. **Note: this example applies to the vast majority of personal property parcels.**

Same numbers as 24 above except that the increase in assessment was occasioned by the fact that there were new acquisitions reported on the 2002 acquisition year line, which resulted in the calculation of an SEV of $7,000 attributable to such new property.

2003 Equalization New = 5,000
2003 Capped value - No Capped Value calculation should be made*.
2003 Headlee = No Losses, since previously existing property is same as last year (it has merely declined in value), and 7,000 Additions occasioned by the new acquisition, which is treated as a "move-in".

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	26,000	31,000		0	5,000
~~CV~~				~~N/A~~	
TV	26,000	31,000	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	7,000

* No Capped Value calculation should be made because the property that was present in 2002 has reduced in value. Applying the Addition that results from the new acquisition reported on the 2002 line of the personal property statement to the capped value formula (there are no losses) will normally result in a value that is greater than what would result using the assessed value (tentative SEV). See Bulletin 1 of 2000.

27. The equalization department utilized the prior year's Form L-4023 line 8 values as the beginning ratio of 50% for the current year's Industrial Classification. The improving economy has created a higher demand for factories in the vicinity. The assessor studies the market and determines that the land value has increased from $5,000 per acre to $8,000 per acre. A ten-acre parcel last year was assessed at $25,000. This year the assessor places a $40,000 assessment on it. The previous taxable value is $24,000.

    2003 Equalization New = 40,000 – 25,000 = 15,000
    2003 Capped Value = (24,000 –0) X 1.015 + 0 = 24,360

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	25,000	40,000	0	0	15,000
CV	24,000	24,360	0	0	0
TV	24,000	24,360	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

The Equalization Department study was not a reliable and accurate study and did not measure the increasing market value in this classification therefore the added value is recorded as Equalization New, not Equalization Plus Adjustment (see page 5, paragraph b, of STC Bulletin 13 of 1996). This type of new value is not capped value additions. Since there was no physical change, there are no Headlee Additions for this property.

28. In 2001 lighting struck a barn and caused a fire that completely destroyed it. In 2002 the barn was replaced with a similar building. The assessor's record indicates that the true cash value of the destroyed barn was

$12,000. The replacement barn's 2003 true cash value is $20,000. Last year the total true cash value was $120,000 and the taxable value was $40,000. (See page 15 of STC Bulletin 3 of 1997 and page 9 of STC Bulletin 3 of 1995).

2003 Capped Value Addition of Replacement Construction	= 12,000 X (40,000 ÷ 120,000) X 1.015 = 12,000 X 0.3333 X 1.015 = 4,060
TV of New Construction Value	= (20,000 – 12,000) X 0.50 = 4,000
Total Capped Value Addition	= 4,000 + 4,060 = 8,060

2003 Capped Value = (40,000 X 1.015) + 8,060 = 48,660
2003 AV (BOR) = 60,000 + (20,000 X 50%) = 70,000

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	60,000	70,000	0	0	10,000
CV	40,000	48,660	0	0	8,060
TV	40,000	48,660	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	8,060

Note: See 1997 Supplement to Bulletin 3 of 1995, page 9. The replacement cost that is capped is limited to the original value of the destroyed property. Any value over and above the destroyed value is capped value additions. In this example 50% of the value (over and above the replacement construction value) ($20,000 – $12,000 = $8,000) is $4,000.

29. Non-Consideration of Normal Repair, Replacements, and Maintenance

A property owner performed certain work in 1990 that qualified for the exemption provided by MCL 211.27(2) known as the Mathiew-Gast Act. The TCV of the exempt improvements is $24,000 as of 12-31-2002. The property transfers ownership in 2002. The assessor adds $5,000 Equalization Plus Adjustment to the 2003 Assessment Roll indicated by the local market study. The following are listed on the 2002 assessment roll:

2002 AV	65,000
2002 CV	42,250
2002 TV	42,250

2003 TCV	164,000
2003 AV	82,000
2003 Equalization New	82,000 – 65,000 – 5,000 = 12,000
2003 Headlee Additions	SEV of previously exempt property (same as Equalization New)

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	65,000	82,000	0	5,000	12,000
CV	42,250	N/A – there was a T of O in 2002, TV = SEV			
TV	42,250	82,000	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	12,000

Note: MCL 211.29(2) … The increase in value attributable to the items included in subdivisions (a) to (o) that is known to the assessor and excluded from true cash value shall be indicated on the assessment roll. This section applies only to residential property. …

The assessor must indicate on the assessment roll or other record (Form 865 formally L-4293) the amount not considered if that value is to be included as Headlee Additions for use in rollback calculations. If the value is not on the assessment roll, the assessor should supply the equalization department with a copy of the original record used to track the non-consideration. It is vital that the assessor keeps accurate records.

Note: In the year following a sale, when the value of normal repairs, replacement and maintenance made by the seller returns to the assessment roll, an addition shall be calculated. The amount of the addition shall be 50% of the true cash value of the previously exempt property. This subject is discussed in detail in STC Bulletin 17 of 1995.

Equalization Loss

30. The property owner requests his property be split into two forty-acre parcels. The eighty-acre parcel was assessed at $40,000. The assessor retires the parcel number for the eighty-acre parcel and creates two new numbers for the forty-acre parcels. This is the procedure approved by the State Tax Commission. Assume no change in value due to general market factors for this property. The value per acre of a 40-acre parcel is the same rate as eighty-acre parcels. The previous taxable value is $30,000.

    The original parcel is retired:

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	40,000	0	40,000	0	0
CV	30,000	0	0	0	0
TV	30,000	0	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

30a Child Parcel – (Child Parcel 30b is treated the same as Child Parcel 30a)

2003 Assessed Value = 20,000
2003 Capped Value = 30,000 X (40,000 ÷ 80,000) = 15,000
(this is the TV allocated to 2002)*
= 15,000 X 1.015 = 15,225

*Note: the allocation of the prior year's taxable value is based on the ratio of the prior year's TCV of the Child Parcel to the prior year's TCV of the Parent Parcel

Note: there are no Headlee Losses or Additions – there was no physical change to the property.

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	0	20,000	0	0	20,000
CV	0	15,225	0	0	0
TV	15,000 (allocated)	15,225	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

This change did not involve a transfer of ownership. The sum of the 2002 allocated TVs of the child parcels must equal the parent parcel's 2002 taxable value.

31. The assessor made a complete review of the classification of properties on the assessment roll. During the review process the assessor determines that the highest and best use as well as the current market for a parcel of land is recreational use and changes the classification from Agricultural to Residential. The previous assessment was $25,000 and the new assessment is $30,000. The previous taxable value is $15,000.

2003 Capped Value = 15,000 X 1.015 = 15,225

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	25,000 Ag	30,000 Res	25,000 Ag	0	30,000 Res
CV	15,000	15,225	0	0	0
TV	15,000	15.225	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

The Agricultural Class incurs a 25,000 Equalization Loss while the Residential Class receives a 30,000 Equalization New. There are no Headlee Losses or Additions because there was no physical change to the property. There are no Capped Value Losses or Additions.

The Equalization Loss occurs in the Agricultural Classification and is carried through to forms L-4022 and L-4023. The Equalization New applies to the Residential Classification and is carried through to forms L-4022 and L-4023.

32. A property owner applies to the township supervisor for a poverty exemption. The supervisor investigates the request and supports the exemption. The March Board of Review concurs and a total exemption is granted. The previous assessed value is $50,000 with a $37,000 taxable value.

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	50,000	0	50,000	0	0
CV	37,000	0	0	0	0
TV	37,000	0	N/A	N/A	N/A
For MRF and Truth in Taxation			37,000	N/A	0

33. A property consisting last year of $20,000 assessed value for land and $80,000 assessed value for a house on the land suffers a fire that completely destroys the house. The previous taxable value for the property is $75,000. The land value has not increased since last year.

2003 Equalization Loss = 80,000
2003 Capped Value Losses = 160,000 X (75,000 ÷ 200,000) = 60,000
2003 Capped Value = (75,000 – 60,000) X 1.015 + 0 = 15,225
2003 Headlee Losses = 160,000 X (75,000 ÷ 200,000) = 60,000

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	100,000	20,000	80,000	0	0
CV	75,000	15,225	60,000	0	0
TV	75,000	15,225	N/A	N/A	N/A
For MRF and Truth in Taxation			60,000	N/A	0

34. While reviewing her assessment, a property owner discovers that the storage building built by her neighbor in 2001 has been valued as part of her property in 2002. The property owner appeals to the State Tax Commission under MCL 211.154. The State Tax Commission orders the value removed from the property owner's assessment and adds the value to the neighbor's assessment. The assessed value of the storage building in 2002 is $15,000. The original (2002) assessed value of this property is $95,000 with a $75,000 taxable value. This property did not change in value due to general market factors since last year.

2002 Revised Taxable Value = 75,000 – 15,000 = 60,000
2002 Final Taxable Value = 60,000
2002 Revised Assessed Value = 95,000 – 15,000 = 80,000
2003 Capped Value = (60,000 – 0) X 1.015 + 0 = 60,900
Equalization Loss is 15,000
Headlee Losses is 15,000

	2002	Revised	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	~~95,000~~	80,000	80,000	15,000	0	0
CV	~~75,000~~	60,000	60,900	0	0	0
TV	~~75,000~~	60,000	60,900	N/A	N/A	N/A
For MRF and Truth in Taxation				15,000	N/A	0

The Final 2002 Taxable Value of $60,000 will be used as the starting point in the calculation of the 2003 Capped Value.

35. The owner of an office has filed a Personal Property Statement both for the year 2002 and the year 2003. There were no acquisitions of new property during the year 2002. The costs reported by the taxpayer are identical for both years (as to amount and acquisition year), but in 2002 the property was reported in Section B of Form L-4175 (Form 632) and in 2003 the property was reported in Section D. Investigation discloses that the identity of the property has not changed and that Section D is the correct Section for reporting the property. In 2002 the SEV and Taxable value for the property was $31,000. In 2003, the calculated SEV is $26,000. No “move-in” form has been filed.

2003 Equalization Loss = 5,000
2003 Capped Value = No calculation is necessary since previously existing property (property present for the 2002 assessment) has declined in value.
2003 Headlee = No Additions or Losses

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	31,000	26,000	5,000	0	0
~~CV~~				~~N/A~~	
TV	31,000	26,000	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

It is typically not necessary to calculate capped value on personal property, for the reason that, as is true under the facts described above, it declines in value from one year to the next. Since an audit has occurred, which has disclosed that the property reported in Section B in 2002 is the same as the property reported in Section D in 2003, there are no Headlee Losses.

36. Same facts as 34 above, except the property has previously (2002) been correctly reported in Section B and the reporting has been changed to Section D in light of a determination from the State Tax Commission that the property in question should henceforth (for 2003 and thereafter) be reported in Section D.

2003 Equalization Loss = 5,000
2003 Capped Value = No calculation is necessary since previously existing property (property present for the 2002 assessment) has declined in value.
2003 Headlee = No Additions or Losses

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	31,000	26,000	5,000	0	0
~~CV~~				~~N/A~~	
TV	0	0	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

The result is the same as it would be in the solution to 35 above except that, since there was no incorrect report in 2002, no MCL 211.154 petition can be filed.

37. Same facts as 34 above, except that no audit was conducted and the assessor has no facts to indicate that the property reported in Section B in 2002 was the same as the property reported in Section D in 2003.

2003 Equalization Loss = 5,000
2003 Capped =No calculation is necessary since previously existing property (property present for the 2002 assessment) has declined in value.
2003 Headlee = No Additions, but Losses of 5,000.

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	31,000	26,000	5,000	0	0
~~CV~~				~~N/A~~	
TV	31,000	26.000	N/A	N/A	N/A
For MRF and Truth in Taxation			5,000	N/A	0

38. Non-Consideration of Normal Repair, Replacement, or Maintenance

The property owner replaces the heating system in his single-family rental property in 2002. He completes a Form 865 (formerly L-4293) indicating cost figures of $8,500. The Assessor completes a “before replacement” appraisal and an “after replacement” appraisal that indicates a market value difference due to the new heating system of $5,000 (TCV). There is a $6,500 Equalization Plus Adjustment indicated by market studies. The 2003 TCV is $188,000.

2002 AV = 85,000
2002 CV = 60,000
2002 TV = 60,000

2003 Equalization Plus Adjustment = 6,500
2003 Equalization Loss = 0
2003 Equalization New = 0
2003 AV = 85,000 + 6,500 = 91,500
2003 CV = (60,000 – 0) X 1.015 + 0 = 60,900
2003 TV = 60,900

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	85,000	91,500	0	6,500	0
CV	60,000	60,900	0	0	0
TV	60,000	60,900	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

Note: If the repairs, replacement and/or maintenance were performed in the year immediately preceding the current assessment year, they would not be included in the prior year's assessed value (because they haven't had a chance to be included yet) and an assessment REDUCTION for the exemption from the prior year shall NOT be made. Likewise, there would not be a loss for equalization purposes. (STC Bulletin 17 of 1995)

39. Non-Consideration of Normal Repair, Replacement, or Maintenance

In 2002 a property owner completed a Form 865 (formerly L-4293) indicating he has made $18,000 (TCV) worth of qualified repairs and maintenance during the 1998 through 2001 time period. The assessor completes a “before replacement” appraisal and an “after replacement” appraisal that indicates a market value difference due to the qualified items of $8,000 (TCV). Equalization studies indicate that there is a $4,000 increase in value (TCV) due to general market conditions.

2002 AV = 45,000
2002 CV = 38,000
2002 TV = 38,000

2003 Equalization Loss = 8,000 X 50% = 4,000
2003 Equalization New = 0
2003 Equalization Plus Adjustment = 4,000 TCV X 50% = 2,000
2003 AV = 45,000 – 4,000 + 2,000 + 0 = 43,000

The amount of the loss in the capped value formula for the current year is calculated as follows:

Loss = TCV of the Exempt Portion of the Property in the Prior Year X (Taxable Value of the entire property in the prior year ÷ TCV of the entire property in the prior year)

2003 CV Losses = 8,000 X (38,000 ÷ 90,000) = 3,378
2003 CV = (38,000 – 3,378) X 1.015 + 0 = 35,141

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	45,000	43,000	4,000	2,000	0
CV	38,000	35,141	3,378	N/A	0
TV	38,000	35,141	N/A	N/A	N/A
For MRF and Truth in Taxation			3,378	N/A	0

Note: If the repairs, replacement and/or maintenance were performed over many years in the past and a first time request for non-consideration is now being made for the current assessment year, an assessment reduction from the prior year shall be made assuming that the value of the exempt items was included in the prior year's assessed value. In this situation there would be a loss for equalization purposes. The amount of the loss is based on the True Cash Value of the exempt items included in the prior year's assessed value.

Other Situations and Combinations

A number of these problems are supplied for demonstration purposes only. Some actions by the Assessor are contrary to State Tax Commission procedures (such as the failure to retire the parent parcel when that parcel is split or failure to retire original parcel numbers when two or more parcels are combined in an assemblage). While these actions on the part of the Assessor should not occur, Equalization Loss, Adjustment, New, Capped Value Losses and Additions, and Headlee Losses and Additions must still be properly accounted for on Forms L-4021, L-4022, and L-4023.

40. A uniform 20-acre parcel assessed at $2,000 per acre is split and a 5-acre parcel is sold in 2002. The original taxable value of the 20-acre parcel is $15,000. In 2003 the assessor assesses the 15-acre residual parcel at $2,200 per acre and the 5-acre new parcel at $3,500 per acre. Contrary to State Tax Commission advice the assessor did not retire the parent parcel identification number.

Parent Parcel:
2002 AV (BOR) = 20 acres X 2,000 = 40,000
2002 TV = 15,000 (given)
2003 AV (BOR) = 15 acres X 2,200 = 33,000
2003 Equalization Loss = 5 acres X 2,000 = 10,000

Note: the Equalization Loss for the split is taken at the previous year's prorated assessed value. Loss is accounted for on Form L-4023 before Equalization Adjustments. The Equalization New is taken after Equalization Adjustments. The TCV on the form L-4023 is the result of the new assessed value divided by the ratio determined after the Equalization Adjustments are made.

2003 Equalization Plus Adjustment = 15 acres X 200 = 3,000
Parent parcel's 2002 TV allocated to the 2003 CV formula:
2003 allocated TV = 15,000 X (60,000 ÷ 80,000) = 11,250
2003 Capped Value = (11,250 – 0) X 1.015 + 0 = 11,419

<u>Parent Parcel (and Residual of Parent Parcel)</u>

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	40,000	33,000	10,000	3,000	0
CV	15,000	11,419	0	0	0
(allocated 11,250)					
TV	15,000	11,419	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

There are no Headlee Losses on this property, no physical change or exemption occurred. There are no Capped Value losses.

<u>Child Parcel:</u>

2003 AV (BOR) = 5 acres X 3,500 = 17,500
2003 Equalization New = 17,500
2003 Capped Value = Does not need to be calculated. Transfer of Ownership means the Taxable Value will equal the SEV.

Split Parcel (New Parcel)

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	0	17,500	0	0	17,500
CV	0	xxxxxx	0	0	0
TV	0	17,500	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

There are no Headlee Additions to this property. There was no physical change or return from an exemption.

41. Combination without a Transfer of Ownership

A farmer has two parcels of adjacent vacant land each 80-acres and each with a $120,000 assessed value and a $90,000 taxable value in 2002. He requests that the assessor combine the two parcels for 2003. Contrary to State Tax Commission policy, the assessor combines both parcels under the parcel code number of one of the existing parcels. The assessor does not change the acreage rate between 2002 and 2003. The 160-acre rate is the same as the 80-acre rate.

41a. Original Parcel Removed.

2002 AV (BOR) = 120,000
2002 TV = 90,000
2003 AV (BOR) = 120,000 – 120,000 = 0
2003 Equalization Loss = 120,000
2003 Capped Value = N/A, SEV = 0 will become TV

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	120,000	0	120,000	0	0
CV	90,000	0	0	0	0
TV	90,000	0	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

Note: There are no Headlee Losses to this property. There was no physical change or exemption granted.

<u>41b Original Parcel plus Combined Parcel</u>
2002 AV (BOR) = 120,000
2002 TV = 90,000
2002 Allocated TV = 90,000 + 90,000 = 180,000
2003 AV (BOR) = 120,000 + 120,000 = 240,000
Equalization New = 120,000 (the parcel 41a combined with parcel 41b)
2003 Capped Value = (180,000 X 1.015) = 182,700

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	120,000	240,000	0	0	120,000
CV	90,000	182,700	0	0	0
TV	90,000	182,700	N/A	N/A	N/A
(allocated 180,000)					
For MRF and Truth in Taxation			0	N/A	0

Note: There are no Headlee Additions to this property. There was no physical change or return from an exempt status.

42. Parcel Combination with a Transfer of Ownership

In March of 2002 a property owner decides to purchase a vacant lot (Parcel 42b) adjacent to his homestead (Parcel 42a). The assessor retires both parcel 42a and 42b and creates the combined parcel 42c. The pertinent data is:

42a.
2002 AV (BOR) = 100,000
2002 TV = 80,000
2003 Equalization Plus Adjustment = 0 (if there had been no combination, there would have been a $5,000 Plus Adjustment to parcel 42a. However, since parcel 42a is retired, no Equalization Plus Adjustment is recorded on equalization forms for parcel 42a).

42b.
2002 AV (BOR) = 19,000
2002 TV = 17,000
2003 TCV = 40,000 (20,000 AV and SEV)

Parcel 42a.

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	100,000	0	100,000	0	0
CV	80,000	0	0	0	0
TV	80,000	0	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

Note: There are no Headlee Losses to this property. There was no physical change or exemption granted.

Parcel 42b.

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	19,000	0	19,000	0	0
CV	17,000	0	0	0	0
TV	17,000	0	N/A	N/A	N/A

For MRF and Truth in Taxation		0	N/A	0

Note: There are no Headlee Losses to this property. There was no physical change or exemption granted.

Parcel 42c.
2003 AV (BOR) = 100,000[1] + 5,000[2] + 20,000[3] = 125,000
2003 Equalization New = 125,000 (parcel did not previously exist)
2003 Capped Value Additions = 0
2003 Capped Value for the non-transferred parcel =
= (80,000 –0) X 1.015 + 0 = 81,200
2003 Capped Value total = 81,200 + 20,000 = 101,200
2003 TV of combined parcel = lessor of 2003 SEV or the CV of non-transferred parcel, plus the 2003 SEV of the transferred parcel.
2003 TV = 81,200 + 20,000 = 101,200

[1] Parcel 42a 2002 AV
[2] The Equalization Adjustment that would have been applied to previous Parcel 42a for 2003 if the parcel was not retired.
[3] AV of recently purchased Parcel 42b

Parcel 42c.

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	0	125,000	0	0	0
CV	0	101,200	0	0	0
TV	0 (97,000)*	101,200	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

*Allocated 80,000 + 17,000 = 97,000

To avoid this complexity, some assessors choose to wait a year before combining non-transferred parcels with parcels that experienced a ‘transfer of ownership’.

Note: Although Parcel 42c is New and all of the value should be reported as Equalization New the Capped Value Formula must use the 2002 taxable value attributed to the original parcel 42a. The value attributable to parcel 42a does not involve physical change or transfer of ownership items and thus does not incur Capped Value Losses or Additions. For the non-transferred portion of the newly combined parcel, since the 2003 CV is less than the SEV for the non-transferred parcel, the CV becomes the allocated amount toward the 2003 TV. For the portion that experienced a ‘transfer of ownership’, the 2003 SEV becomes the allocated amount toward the 2003 TV. The 2003 TV is the sum of the preceding two allocated amounts.

43. Property moving from taxable status to non-taxable status.

The Township purchased a privately owned lot and erected a township fire station. The 2002 assessed value of the lot was $20,000 and the taxable value was $18,000. The Township purchased the property in an arms-length transaction during July of 2002 for $50,000

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	20,000	0	20,000	0	0
CV	18,000	0	18,000	0	0
TV	18,000	0	N/A	N/A	N/A
For MRF and Truth in Taxation			18,000	N/A	0

Note: The Headlee Losses are the previous Taxable Value because the parcel has now been moved to Exempt status.

44. Property moving from tax exempt status to taxable status.

In 2002, a local Church sold its parsonage. The assessor determined that the true cash value of the house and lot for 2003 is $70,000 ($35,000 SEV)

2003 Equalization New = 35,000
2003 Taxable Value is the 2003 SEV
2003 Headlee Addition is the 2003 SEV

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	0	35,000	0	0	35,000
CV	0	35,000	0	0	35,000
TV	0	35,000	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	35,000

Board of Review Changes

45. March Board of Review

The property owner of a residence constructed in 2001, after review of the assessment records, appeals the assessment to the 2003 March Board of Review. The contention is that the assessor treated a glass-enclosed porch as living space in the assessment. The 2002 assessed value (SEV) is 120,000; the taxable value is 110,000. The March Board of Review instructs the assessor to correct the error. For this example there is no increase in value attributable to general market factors. The 2002 assessed value of the land is $20,000 and of the residence, $100,000. The assessor recalculates the square footage for rates and revalues the residence at $95,000 (SEV) for 2003.

2003 AV (BOR) = 95,000 + 20,000 = 115,000
2003 Equalization Loss = 100,000 – 95,000 = 5,000
2003 Capped Value Losses = 10,000 X (110,000 ÷ 240,000) = 4,583
2003 Capped Value = (110,000 – 4,583) X 1.015 + 0 = 106,998

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	120,000	115,000	5,000	0	0
CV	110,000	106,998	4,583	0	0
TV	110,000	106,998	N/A	N/A	N/A
For MRF and Truth in Taxation			4,583	N/A	0

Note: The value removed by the 2003 March Board of Review was originally added to the 2002 roll as New and Additions, therefore the value is removed as a Loss for Equalization purposes and as Losses for Capped Value and Headlee purposes.

Note: The 2003 March Board of Review does not have the authority to change the 2002 values. The 2003 July and December Board of Reviews do not have the authority to make this correction for 2002 or 2003 because the error is not the result of a clerical error or a mutual mistake of fact as defined by court cases nor is it an exemption matter.

46. March Board of Review

A property owner appears before the March Board of Review to appeal his assessment. The 2002 Assessment was $55,000 and the Taxable Value was $40,000. The Assessor increased the 2003 assessment to $60,000 applying Equalization Plus Adjustment of $5,000. The March Board of Review determines that the 2003 assessment should be $52,000 and makes that order.

2003 Equalization Plus Adjustment by Assessor = 5,000
2003 Equalization Minus Adjustment by BOR = – 8,000
2003 Capped Value = (40,000 – 0) X 1.015 + 0 = 40,600

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	55,000	52,000	0	-3,000	0
CV	40,000	40,600	0	0	0
TV	40,000	40,600	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

Note: There was no physical or exemption change to this property therefore there can be no Equalization Loss or Headlee Losses. The change is reflected as Equalization Adjustment. The difference between the 2002 Assessed Value and the 2003 Assessed Value as adjusted by the March Board of Review is $3,000 (Equalization Minus Adjustment).

Note: The Taxable Value in this problem is not affected by the change in assessed value as determined by the March Board of Review. The Capped Value formula must begin with the previous year's Taxable Value; there are no Capped Value Losses or Additions for this property.

47. March Board of Review

The assessor, in a drive by review of properties on December 30, 2002, notices that a new storage building was built on Mr. Smith's property. The assessor checks his file of building permits and finds none for this property. No one is home during several attempts to speak with Mr. Smith so the assessor measures the storage building and adds $7,500 to the assessment. Mr. Smith's 2002 assessed (SEV) was $57,500 and the taxable value was $44,600. Assume no general market change for 2003 over 2002. The assessor's data prior to the March Board of Review indicates the following:

2003 Equalization New = 7,500
2003 Headlee Additions = 7,500
2003 Capped Value = (44,600 – 0) X 1.015 + 7,500 = 52,769

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	57,500	65,000	0	0	7,500
CV	44,600	52,769	0	0	7,500
TV	44,600	52,769	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	7,500

Mr. Smith appears before the 2003 March Board of Review to obtain an explanation of the increase in Taxable Value reported on the Assessment Change Notice he received in February. It is discovered that the storage building the assessor added to his property was actually on the neighbor's (Mr. Jones) property and that Mr. Jones did have a building permit issued for that construction. It was further discovered that the assessor did not add value to Mr. Jones' assessment. The assessor's data for Mr. Jones (pre-March Board of Review) is:

Capped Value = (50,000 – 0) X 1.015 + 0 = 50,750

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	60,000	60,000	0	0	0
CV	50,000	50,750	0	0	0
TV	50,000	50,750	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

How does the 2003 March Board of Review make the corrections?

The Board makes the correction by changing Mr. Smith's 2003 AV (BOR) from $65,000 to $57,500 and re-calculates the Capped Value formula:

Capped Value = (44,600 – 0) X 1.015 + 0 = 45,269

Mr. Smith's Property:

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	57,500	57,500	0	0	0
CV	44,600	45,269	0	0	0
TV	44,600	45.269	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

Mr. Jones' Property:

2003 AV (BOR) = 60,000 + 7,500 = 67,500
2003 Equalization New = 7,500
2003 Capped Value Addition = 7,500
2003 Capped Value = (50,000 – 0) X 1.015 + 7,500 = 58,250
2003 Headlee Additions = 7,500

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	60,000	67,500	0	0	7,500
CV	50,000	58,250	0	0	7,500
TV	50,000	58,250	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	7,500

Note: The 2003 March Board of Review must notify Mr. Jones of the change and allow him an opportunity to appear before the Board.

The 2003 Equalization process will continue as normal using the March Board of Review values.

48. July/December Board of Review

A property owner notifies the Township Supervisor and the Assessor that he would like to appeal an error in his assessment to the 2003 December Board of Review. He indicates that he has been studying his assessment record card and discovered that the assessor has charged him with three full bathrooms but he has only two full bathrooms plus a half bath. The difference between a full bath and a half bath is $800 (true cash value). The assessment data used indicates the following:

2002 AV (BOR) = $110,000	2002 TV = $82,000
2003 AV (BOR) = $115,000	2003 TV = $83,230

What actions does the December Board of Review take?

The December Board of Review indicates that they do not have jurisdiction over this type of error. This is a valuation dispute that should have been brought to the attention of the 2003 March Board of Review. The Board of Review should notify the assessor of the error so that the 2004 assessment can be correctly calculated. A change is not made nor can a change be made for 2003 or any previous year because of this error because the property owner did not bring the matter to the attention of previous March Board of Reviews.

Note: The July/December Board of Review's jurisdiction is limited to: Clerical Errors or Mutual Mistakes of Fact (as defined by previous court cases); Poverty Exemption; Principle Residence (Homestead) Exemption; Qualified Agricultural Exemption.

CLERICAL ERROR

International Place Apartments
v
Ypsilanti Township

On March 29, 1996 the Michigan Court of Appeals clarified the meaning of the term "clerical error" found in MCL 211.53b which authorizes the correction of a clerical error or mutual mistake of fact by the July and December Boards of Review. The Court of Appeals states that the July and December Boards of review are allowed to correct clerical errors of a ***typographical or transpositional nature.*** The July and December Boards of review are **NOT** allowed to revalue or reappraise property when the reason for the action is that the assessor did not originally consider all relevant information.

MUTUAL MISTAKE OF FACT

General Products Delaware Corporation
vs
Township of Leoni; County of Jackson

This case was precedent setting as the Tribunal defined “mutual mistake of fact” as follows: “the fact or facts upon which the erroneous belief is based must be an identifiable thing common to both parties’ knowledge and awareness, be within the contemplation of each party, be a ‘basic assumption’ material to the mistake – and that each party arrive at a substantially identical but erroneous conclusion based upon that material fact or set of facts and that the mistaken fact was the primary cause of, and had a ‘material effect’ upon, the over-assessment and excessive tax payment.”

49. In June of 2003, a property owner, after reviewing his property record card, discovers that the assessor transposed the numbers in the square footage of his home built in 2001 on land he purchased earlier that year. The size of the home is 1,475 square feet. The assessor calculated the value based on a size of 1,745 square feet.

    The true cash value of the house reported in 2002 was $225,000 with a land value of $50,000. The assessor placed a $137,500 assessed value and a $137,500 taxable value on the property in 2002. The assessor determined that the 2003 true cash value (prior to 2003 March Board of Review) is $290,000 (5.5% general rate of increase for real estate in township) with a capped value (taxable value) of $139,562. The 2004 CPI is 1.023. The general rate of increase for real estate for 2004 is 7%.

    The 2003 July Board of Review indicated that the TCV of the home should have been $200,000 in 2002 instead of $225,000. What can the July Board of Review legally do and how will the assessor make legally permissible corrections?

The July Board of Review has the authority to cause the assessor to make the necessary changes to the parcel for 2002 and recalculate the taxable value because there was a transpositional error. The County Treasurer then will issue a refund to the property owner within 30 days. No changes are made to the County or State Equalization numbers for 2002 or 2003 because the equalization process is already finished as of the 2003 July Board of Review. The assessor will take an Equalization Loss for the parcel in 2004 to reflect the order made by the 2003 July Board of Review.

Assessor's calculation before 2003 July Board of Review change:

2002 AV = (225,000 + 50,000) X 50% = 137,500
2002 Taxable Value = SEV (2001 T of O) = 137,500

	2001	2002	Loss/Losses	+/-Adjustment	New/Additions
AV		137,500	0	0	112.500*
CV		0	0	0	112.500*
TV		137,500	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	112,500*

*New Construction only

2003 AV = 137,500 X 1.055 = 145,063 say 145,100
2003 Equalization Adjustment = 145,100 – 137,500 = 7,600
2003 Capped Value = 137,500 X 1.015 = 139,562

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	137,500	145,100	0	7,600	0
CV	137,500	139,562	0	0	0
TV	137,500	139,562	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

Assessor's calculations after 2003 July Board of Review changes:

2002 BOR = 100,000 (house) + 25,000 (land) = 125,000 (instead of 137,500)
2002 Taxable Value = 125,000 (SEV)

2003 Equalization Plus Adjustment = (125,000 X 1.055) – 125,000 = 6,900 (rounded)
2003 AV (BOR) = 125,000 + 6,900 = 131,900
2003 Capped Value = 125,000 X 1.015 = 126,875

	2002	2003	Loss/Losses	+/-Adjustment	New/Additions
AV	125,000	131,900	0	6,900	0
CV	N/A	126,875	0	0	0
TV	125,000	126,875	N/A	N/A	N/A
For MRF and Truth in Taxation			0	N/A	0

2004 AV = 131,900 X 1.07 = 141,133 say 141,100
2004 Equalization Loss = 145,100 – 131,900 = 13,200 (reduction by July BOR)
2004 Capped Value = 126,875 X 1.023 = 129,793

	2003	2004	Loss/Losses	+/-Adjustment	New/Additions
AV	145,100	141,100	13,200	9,200	0
CV	126,875	129,793	0	0	0
TV	126,875	129,793	N/A	N/A	N/A
For MRF and Truth in Taxation			12,687*	N/A	0

*Reduction in TV for reduction in square footage after May of 2003 is 12,687 (i.e. 139,562 – 126,875)

2002 Tax Refund = (137,500 – 125,000) X 2002 Millage Rate
2003 Tax Refund = (139,562 – 126,875) X 2003 Millage Rate

STATE TAX COMMISSION AND MICHIGAN TAX TRIBUNAL

Changes ordered by either the State Tax Commission or the Michigan Tax Tribunal are treated and calculated in the same manner as those described for the July or December Board of Review.