

Q. Why is my Taxable Value, and thus my taxes, more than the previous owner had paid? What is Uncapping?

A. It is extremely common that your taxes will be greater than they were for the previous owner. Your property taxes are based on your taxable value and the millage rate:

$$(\text{Taxable Value} / 1,000) \times \text{Millage Rate} = \text{Tax Bill}$$

Based on Michigan State Law (P.A. 415 of 1994, more commonly referred to as "Proposal A"), the year following the sale of a property, the taxable value of the property is "uncapped." Uncapping means that the taxable value is made the same as the assessed value due to the sale of the property (see assessing terms above if necessary). Proposal A (P.A. 415 of 1994) established the concept of a taxable value which can only go up by the rate of inflation or 5%, whichever is less. This assumes there are no major additions or demolitions on the property which would affect its value. If you add to the value of your property, your taxable value will increase. Think of a vacant piece of property that, a year later, has a house built on it. The value has obviously increased, and thus the taxable value and taxes increase as well.

Proposal A essentially set a CAP, or limit, on the amount your taxable value can go up annually. Since taxable value determines your tax bill, it limits the amount your tax bill can increase every year ("the rate of inflation or 5%, whichever is less"). Prior to this, as taxes were based on State Equalized Value (typically the same as the assessed value), it was not uncommon for a property owner's tax bill to increase by 10% or more in one year. Proposal A set the cap, or limit, so that drastic increases could not occur and, in turn, the fluctuation of tax bills was not extreme, if millage rates remain constant.

The key to remember is that the ASSESSED VALUE changes at the rate the real estate market changes, but the TAXABLE VALUE can only change at the rate of inflation (or 5%, whichever is less). Over time, it is common for a gap to be created between the assessed and taxable values. For example, if assessments go up by 5% every year but inflation is only 3%, it does not take long for that gap between the two to increase. However, the year following the sale of the property, the taxable value is uncapped to become the same as the assessed, and the process begins again.

It is important to note: The taxable value can never be greater than the SEV.

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