

Michigan Property Tax Appeal A Professional Perspective

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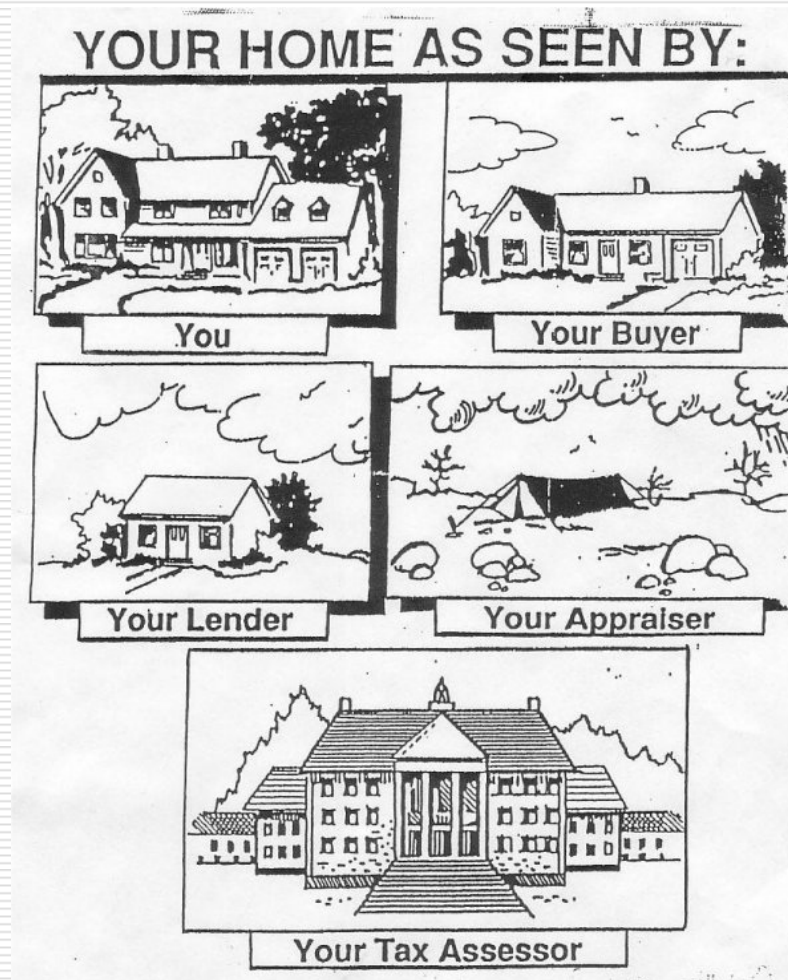
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Purpose of the program is to provide the participant with an understanding of Michigan assessments and the process involved pertaining to their appeal.

Viewpoints of the same property.



Important Dates

Generally,

- December 31, 2007 – Tax day for 2008 assessments and 2008 property taxes.
- February 20, 2008 – Deadline for taxpayer filing of personal property statement.
- Tue. following first Mon. in March. First meeting of township Board of Review. City may vary (check with local municipality.)
- May 1, 2008 – Deadline for filing Homeowner's PRE.
- May 31, 2008 – Deadline to file non-residential appeals to MTT.
- June 30, 2008 – Deadline for classification appeals to STC.
- July 31, 2008 - Deadline to file residential appeals to MTT (must have protested at March Board of Review.)
- Tue. following third Mon. in July. Special meeting of July Board of Review.
- Tue. following the second Mon. in December. Special Board of Review meeting.
- December 31, 2008 – Tax day for 2009 assessments and 2007 property taxes.

Fundamental Terms and Valuation Concepts

MCL 211.34c Classification of assessable property...

- Classification of assessable real property are:
 - a. Agricultural
 - b. Commercial
 - c. Developmental
 - d. Industrial
 - e. Residential
 - f. Timber-cutover

- Classification of assessable personal property are:
 - a. Agricultural
 - b. Commercial
 - c. Industrial
 - d. Utility

- Classification appeals are made to:
 - March Board of Review, and then to State Tax Commission

Definition of Industrial Property, Excerpt MCL 211.34c

Industrial *personal property* includes the following:

- ❑ (i) All machinery and equipment, furniture and fixtures, and dies on industrial parcels, and inventories not exempt by law.
- ❑ (ii) Personal property of mining companies valued by the state geologist.

Industrial *real property* includes the following:

- ❑ (i) Platted or unplatted parcels used for manufacturing and processing purposes, with or without buildings.
- ❑ (ii) Parcels used for utilities sites for generating plants, pumping stations, switches, substations, compressing stations, warehouses, rights-of-way, flowage land, and storage areas.
- ❑ (iii) Parcels used for removal or processing of gravel, stone, or mineral ores, whether valued by the local assessor or by the state geologist.
- ❑ (iv) For taxes levied after December 31, 2002, buildings on leased land used for industrial purposes.
- ❑ (v) For taxes levied after December 31, 2002, buildings on leased land for utility purposes.

Definition of Commercial Property, Excerpt MCL 211.34c

Commercial *personal property* includes the following:

- ❑ (i) All equipment, furniture, and fixtures on commercial parcels, and inventories not exempt by law.
- ❑ (ii) All outdoor advertising signs and billboards.
- ❑ (iii) Well drilling rigs and other equipment attached to a transporting vehicle but not designed for operation while the vehicle is moving on the highway.
- ❑ (iv) Unlicensed commercial vehicles or commercial vehicles licensed as special mobile equipment or by temporary permits.

Commercial *real property* includes the following:

- ❑ (i) Platted or unplatted parcels used for commercial purposes, whether wholesale, retail, or service, with or without buildings.
- ❑ (ii) Parcels used by fraternal societies.
- ❑ (iii) Parcels used as golf courses, boat clubs, ski areas, or apartment buildings with more than 4 units.
- ❑ (iv) For taxes levied after December 31, 2002, buildings on leased land used for commercial purposes.

Beginning in 2008

- On July 12, 2007, Governor Granholm signed Public Act 36 of 2007, the MBTA into law, which was tie-barred with House Bills 4369-4372 (Public Acts 37-40.) The MBT provides the following refundable credits for property taxes levied after 2007 and paid in the tax year:
 - 35% refundable credit for industrial personal property;
 - 23% refundable credit for utility property taxes paid by telephone companies (13.5% in subsequent years thereafter); and
 - 10% refundable credit for personal property taxes on natural gas pipelines.

- Public Acts 37-40 of 2007, exempt *Industrial Personal Property* from the 6 mill State Education Tax and up to 18 mills of local school district operating millage (24 mill reduction total and includes property under IFT); and exempt *Commercial Personal Property* from up to 12 mills of local school district operating millage (exceptions may apply.)

Classification Appeals

□ For prior years, all personal property was equalized as one class, therefore classification was not a major issue. However with the passage of the MBTA, classification of personal property becomes increasingly important, as incorrect classification will lead to erroneous payments of property taxes and MBT by taxpayers.

□ It's important for Michigan taxpayers to be cognizant of the **critical** nature their property be identified and classified correctly, as well as valued properly. Instituting a quality-based property tax due diligence program can be extremely fruitful in ensuring fair property tax payment.

□ Classification appeals are made to:

- March Board of Review, and then to State Tax Commission

Michigan State Constitution requires:

☐...assessment of real property must not exceed 50% of its true cash value...

☐Section 211.27(1) of the General Property Tax Act, states true cash value is:

...the usual selling price at the place where the property to which the term is applied is at the time of assessment, being the price which could be obtained for the property at private sale, and not at auction sale except as otherwise provided in this section, or at forced sale...

Michigan courts have held true cash value is synonymous with fair market value.

The most widely accepted components of market value are incorporated in the following definition:

The most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress.

Price and cost are not synonymous with value.

Price and cost may serve as basis for expressing an appropriate measurement *to value* when, and only when, applied using authoritative valuation methodologies (i.e. the approaches *to value*.)

Price, once stated, is a fact. The amount asked, offered, or paid for a property.

Cost is either a fact, or an estimate of a fact. The amount required to create, produce, or obtain a property.

Taxable Value - Lower of SEV/AV or Capped Value, unless there is a transfer of ownership

- Taxes are based on TV
- Assessed Value - normally 50% of True Cash Value
- Capped Value - Last year's TV x CPI (2007 is 3.7%), unless there is a change in the property, or 5 person whichever is less.

*If change in property than formula: Last year's TV minus losses multiplied by the CPI plus any additions.

NOTICE OF ASSESSMENT ERRORS

**NOTICE OF ASSESSMENT, TAXABLE VALUE
(MAY SHOW PROPERTY IMPROVEMENTS) AND
EXEMPTION INFORMATION**

**THIS IS NOT
A TAX BILL**

THIS NOTICE IS FOR PROPERTY OWNERS WHOSE PROPERTY IS ASSESSED BY THE

PROPERTY TAXATION

YOUR PROPERTY IS CLASSIFIED AS 401
PLEASE PRINT SUBDIVISION IF APPLICABLE

Paragraph A, passed by voters on March 15, 1994, plus an add-on to the value used to compute property taxes. (Adding to 1991, your property taxes were calculated on Taxable Value (see line 3 below). If there is a correction add-on to the "1991 base" value at the 1994 size of the Taxable Value, that add-on is not your change in taxes. It is the change in Taxable Value.

Since for 1995, your taxes were calculated on State Equalized Value (see line 4 below), State Equalized Value (SEV) is the Adjusted Value multiplied by the Equalization Factor, if any (see line 5 below). State Equalized Value (SEV) approximates 95% of market value.

IF THERE WAS A TRANSFER OF OWNERSHIP on your property in 2004, your 2005 Taxable Value will be the same as your 2004 SEV. SEV Equalized Value. Please see line 5 below regarding transfer of ownership on your property.

IF THERE WAS NOT A TRANSFER OF OWNERSHIP on your property in 2004, your 2005 Taxable Value is calculated by multiplying your 2004 Taxable Value (see line 3 below) by 1.040 (which is the inflation rate factor) for the current year. (Please examine the year property tax data provided to determine your 2004 Taxable Value.)

	2004 TAXABLE VALUE	2004 SEV	2005 SEV
1. TAXABLE VALUE (SHOW ABOVE & BELOW)	57,584	116,000	120,756
2. PROPERTY TAXES	116,000	116,000	000
3. UNIFORMED STATE PROPERTY TAXES 1.00000			
4. STATE EQUALIZED VALUE (SHOW ABOVE & BELOW)	116,000	116,000	120,756
5. INFLATE Yes A. INFLATION RATE (APPLICABLE FOR YEAR 1 ONLY) 1.04000			

If you believe the above values, the proper local Board of Review by letter. Letter appeals are to be accompanied by a completed local Board of Review petition form (form L-4035 or an alternate petition form used by the local unit of government). The petition form approved by the State Tax Commission (form L-4035) is available at www.michigan.gov/taxcom.

The Board of Review will begin meeting on March 22, 2005 to consider appeals on assessments at the following address: City of Grosse Pointe Park, 15115 East Jefferson Avenue, Grosse Pointe Park, MI 48230. March 22 from 9:00 AM-9:00 PM and March 23 9:00 AM-5:00 PM --BY APPOINTMENT ONLY-- call (313) 622-4361 for questions or appointments. Written appeals are accepted if postmarked by March 23, 2005.

% Exempt As "Homeowner's Principal Residence": 100.0000
% Exempt As "Qualified Agricultural Property":

The denial of an exemption from the local school operating tax for "qualified agricultural properties" may be appealed to the local Board of Review. The denial of an exemption from the local school operating tax for "homeowner's principal residence" may be appealed to the Michigan Tax Tribunal. Protest at the Board of Review is necessary to protect your right to further appeals to the Michigan Tax Tribunal for valuation and exemption appeals and to the State Tax Commission for classification appeals.

Leasehold Improvement Information: If this notice form is for the personal property of a tenant who has installed leasehold improvements, the following are the 2005 Taxable Value (TV) and the 2005 State Equalized Value (SEV) of the leasehold improvement portion of the total property:

2005 TV 0 2005 SEV 0

Homeowner's Principal Residence Affidavit Information (Required by P.A. 347 of 2000: If you purchased your principal residence after May 1 last year, to claim the principal residence exemption, if you have not already done so, you are required to file an affidavit before May 1 this year.

Excerpt from Change of Assessment Notice

	Prior Amount	Current Amount	Change
	Year 2006	Year 2007	
1. TAXABLE VALUE (current amount is tentative)	129,750	134,550	4,800
2. ASSESSED VALUE:	129,750	136,280	6,530
3. TENTATIVE EQUALIZATION FACTOR: 1.00	129,750	136,280	6,530
4. STATE EQUALIZED VALUE (Current amount is tentative)			
5. There WAS/WAS NOT a transfer of ownership on this property in 2006 - WAS NOT			
Your assessment was changed for the following reasons: MARKET ADJUSTMENT			
% Exempt as "Principal Residence": 0.00%			
% Exempt as "Qualified Agricultural Property": 0.00%			

1995	1.026
1996	1.028
1997	1.028
1998	1.027
1999	1.016
2000	1.019
2001	1.032
2002	1.032
2003	1.015
2004	1.023
2005	1.023
2006	1.033
2007	1.037

Consumers Price Index = 2.3%

Property Tax Levy Formula

Taxable Value X Millage Rate = Property Tax

Example:

Given: TV = \$100,000

Millage Rate = 42.4270

Admin. = 1%

Calculation: $-\$100,000 \times (42.4270/1000) = \$4,242.70 \times 1.01 =$
\$4,285

Questions to ask prior to appealing assessment

- ❑ What is the disparity between assessed and taxable values?
- ❑ Is assessment record correctly reflecting property?
- ❑ What do you believe property is worth, and in terms of taxable value?
- ❑ What is risk involved, and associated rewards gained in appealing (if win, split, and lose decision.)

Mass Appraisal v Singular Appraisal

- Mass appraisal uses valuation methodologies to value a universe of like-kind properties having common characteristics simultaneously.
- Singular appraisal uses valuation methodologies to value a single property specific to its unique characteristics.

Three Approaches to Value

- Dependent on property type.
- Sales approach (“market”)
 - Compare subject property to similar listings and sales
- Cost approach
 - Replacement cost new less depreciation plus land value
- Income approach
 - Cash flow for real estate → income properties

Cost Approach

- Based upon the perception of cost related to value. It presumes that the informed purchaser would pay no more for property than the cost of producing a property having the same, or similar, utility. For improved parcels, the subject site is valued as vacant, and the depreciated reproduction (or replacement) costs are then added to the site value.

Sales comparison approach

- Based upon the perception of price related to value. It produces a value indication by comparing a property with similar, competitive, properties.

Income capitalization approach

- Based upon the perception that income may be related to value. It produces a value indication by extracting overall capitalization rates from competitive properties, and the marketplace, and applying the rates to relevant market income stream(s). For residential properties, use of Gross Rent Multipliers might be appropriate.

Overview of the Michigan Tax Tribunal

- Est. in 1973 (PA 186)
- Single tax court for tax appeals.
- Exclusive jurisdiction of all property tax matters.
- Subject matter jurisdiction including property and non-property tax.
- Seven Member/Multi-Discipline Professional Knowledge and Skills.

Tribunal Has Two Divisions

- **Entire Tribunal**
- **Small Claims**

SMALL CLAIMS DIVISION

Informal Process

- Hearings are approximately 30 minutes in length
- Designed for non-complex appeals
- Held within county or adjacent county of jurisdiction
- May be telephonically
- Presided by Tribunal member or Administrative Law Judge (ALJ – May file exceptions, Tribunal member file to court of appeals.)

ENTIRE TRIBUNAL

Formal trial process

- Requires formal petition stating specific pleadings, counsel conference, prehearings, and court reporter for trial
- Average hearing 3 days (approx. 15%-20% last over one week.)
- Due to inherent knowledge and skills needed for Tribunal Rules and Procedures, APA, MCR, and MRE, parties are best represented by attorneys with additional expertise provided (such as appraisers)
- Hearings held in Lansing at Tribunal office.
- Presided by Tribunal Member. If ALJ presides, additional Rules apply.
- All requests are made by Motion.

ENTIRE TRIBUNAL

Jurisdiction:

- Complex properties.
- Any appeal involving commercial or industrial real or personal property if SEV in contention is **MORE than \$100,000.**
- Special Assessment if amount in dispute is **MORE than \$6,000.**
- Non-Property if amount of **tax** in dispute is **MORE than \$6,000.**

Valuation Disclosure Concepts

Valuation disclosure as defined by TR205.1101(m) “*documentary or other tangible evidence in a property tax appeal which a party relies upon in support of the party’s contention as to the value conclusions and data, valuation methodology, analysis, or reasoning in support of the contention.*”

A valuation disclosure may include any, and all, of the following: appraisal, appraisal review, appraisal consulting reports; market analysis reports; listing and broker price opinions; property record cards and valuation record cards, land sales maps, location maps, flood maps, plat maps, topography maps, GIS maps, Census Tract maps, zoning maps; financial statements, balance sheets, and income sheets; and any other relevant social, economic, environmental, and governmental reports.

Appraisal is defined as “[T]he act or process of developing and communicating an opinion of value; an opinion of value.” USPAP, 2005 ed.

Valuation Experts

Those possessing SKEET (skills, knowledge, education, experience, and training.)

Four types of appraisal licensure in Michigan:

- (1) Limited Real Estate Appraiser
- (2) Stated Licensed Real Estate Appraiser
- (3) Certified Residential Real Estate Appraiser
- (4) **Certified General Real Estate Appraiser**

Other than value, taxpayers should consider reviewing property tax obligations for:

- Unjust uncapping of taxable values,
- Establishing trusts,
- Abatement and other tax incentive programs,
- Clerical errors,
- Mutual mistakes of fact,
- Principal Residence Exemption Appeals,
- Agricultural Exemption Appeals,
- Incorrectly reporting personal property,
- Others.

Concluding remarks.

Questions?

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