

# City of East Lansing One Pager Plus

## Property Valuation, the Principal Residence Exemption and Property Transfers FAQs

### **Assessed Value (AV)**

The assessor is statutorily required to set an AV equal to 50% of the market value of your property.

### **State Equalized Value (SEV)**

SEV is the AV adjusted following county and state equalization. County Boards of Commissioners and the Michigan State Tax Commission must review assessments by property classification and adjust (i.e., equalize) them if they are above or below the statutory 50% level of assessment. Typically, SEV is the same as AV.

### **Taxable Value (TV)**

TV is the figure which is used to calculate your taxes. Multiplying the TV by the millage rate, then dividing by 1,000 will determine your tax liability. TV can increase from year to year up to the rate of inflation or 5%, whichever is lower. Transfers of ownership, which “uncap” the TV, and improvements to the property can increase the TV more than the rate of inflation. TV cannot exceed the SEV for the property.

### **How is the AV determined?**

To ensure properties are assessed uniformly and at 50% of market value, County Equalization Departments conduct sales and appraisal studies each year. These studies analyze the sale or appraised value of properties compared to their AV. Based on these studies, the assessor must increase or decrease values so that each class of property (e.g., residential, commercial, industrial, etc.) is at 50% of market value. For residential properties for 2022 assessments, the sales studies included sales dated from April 1, 2019 through March 31, 2021.

Residential sales information was then organized by economic neighborhoods by the assessor. For residential properties, an economic neighborhood can be a single subdivision or a grouping of areas with similar characteristics. If the sales in an economic neighborhood indicated an increase or decrease in value, the AV of properties in that neighborhood were adjusted uniformly based on conclusions drawn from the sales.

A similar method was used to value commercial and industrial properties; some commercial properties were also valued using an income approach. Personal property is assessed using property statements reporting the assets of a business. December 31, 2021 was the status day (i.e., “Tax Day”) for property taxes in Michigan for 2022 assessments. All AV were determined as of that day.



## Property Valuation, PRE and Property Transfers (Continued)

### **Property values in my neighborhood have been decreasing. Will my property valuation be decreasing as well?**

Your property's AV and TV are separately calculated. The AV changes with the real estate market and can go up or down without limitation. AV is tied to market value and should reflect market changes.

TV changes are based on a formula involving the rate of inflation (positive or negative) and any physical changes to the property (new construction or demolition). Because they are separately calculated, TV may increase even when AV has decreased. Generally, residential property values increased for 2022.

### **Can my taxes go up if market values have gone down?**

Proposal A limited increases in taxes by limiting how much a property's TV can increase each year. Generally speaking, under the protection of Proposal A, annual property taxes can increase no more than the rate of inflation or 5%, whichever is less. (Exceptions include a transfer of ownership, omitted property, new construction, changes in millage rates, etc.)

However, Proposal A did not limit the growth of SEV. Over time, many properties' SEV have become much greater than those properties' TV. Even with recent economic downturns, there are many properties with an SEV that is greater than the TV. Since TV is the lesser of SEV and the prior year's TV multiplied by the inflation rate multiplier, these properties' TV were increased by the rate of inflation (3.3%) for 2022. This is true even though those properties' SEV may have decreased. In such cases, the mechanics of Proposal A may seem unfair. But if Proposal A were not in place for these properties, their property taxes would be based on SEV and their property taxes would be higher. Generally, residential property values increased for 2022.

### **Can I contest my AV and TV?**

Every property owner has the right to appeal their assessment. However, the opportunity only comes once per year and if missed, there is not another opportunity that year. Your assessment change notice provides you with the dates and times for the March Board of Review. Also, an informal Assessor's Review is offered by the City prior to the March Board of Review. This is an opportunity to discuss your assessment on an informal basis with the Assessing Department. For residential properties, an appeal to the March Board of Review is necessary to protect your right to further appeal to the Michigan Tax Tribunal. All other properties may appeal directly to the Michigan Tax Tribunal. Appeals to the Board of Review can be made in person or by letter.



## Property Valuation, PRE and Property Transfers (Continued)

Note: This is intended as general information and should not be construed as legal advice. If you have specific legal questions, you should consult your attorney.

### What is the Principal Residence Exemption (PRE)?

The PRE removes the local school operating tax from your bill. On the assessment change notice, the exemption is illustrated by a 100% if you are eligible or a 0% if you are not. You must file a Principal Residence Exemption (PRE) Affidavit (Form 2368) to claim the PRE. If you own and occupy a home as your principal residence by June 1, 2022, you are entitled to a PRE for the summer tax levy and subsequent tax levies. If you own and occupy a home as your principal residence after June 1, 2022 but by November 1, 2022, you are entitled to a PRE for the winter tax levy and subsequent tax levies.

### Property Transfers

Whenever real property ownership is transferred, a Property Transfer Affidavit (Form L-4260) must be completed and filed with the local assessor. If this is not done, when the local assessor learns of the transfer of ownership, the assessor is required to complete an Assessor Affidavit Regarding “Uncapping” of Taxable Value (Form 3214) for the appropriate tax years. “Uncapping” means that the SEV becomes the TV, and additional property taxes become due immediately. The additional property taxes which become due can be for multiple tax years and can also be a substantial amount of money. For these reasons, it is to the advantage of the new owner to file the Property Transfer Affidavit as soon as possible after the transfer of property ownership. Fines will be incurred for failure to file.

In addition to filing a Property Transfer Affidavit whenever real property ownership is transferred, the new owner must file a Principal Residence Exemption (PRE) Affidavit (Form 2368) to claim the PRE. (See the section above on the PRE for additional information regarding this exemption.) If the transferred property has been receiving the PRE, the former owner is required to file a completed Request to Rescind Principal Residence Exemption (PRE) (Form 2602) and their PRE will be removed on December 31 of the calendar year in which the property was transferred to the new owner.

To avoid problems, it is important that property transfer forms be correctly completed and timely filed with the Assessing Department. Property transfer forms can be found in the Assessing Department in City Hall or by visiting the Michigan Department of Treasury Website [www.michigan.gov/treasury](http://www.michigan.gov/treasury). Many of the forms are fillable online.

