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Question: How did Proposal A change the way property taxes are calculated in Michigan?

Answer:

Until 1994, property taxes were based on a property's assessed value or an amount equal to 50% of the property's market value. This meant that property taxes went up and down in close relation to an increase or decrease in property value. With the passage of Proposal A, however, the tax was stabilized. In fact, some of the tax burden was shifted from property to sales tax, which was increased from 4% to 6%.

Proposal A created a new basis by which property tax would be calculated: the taxable value of the property. The taxable value of a property can only increase each year by the lesser of the rate of inflation or 5%. This allowed property values to rise in the 1990s without a corresponding rise in taxes. Unfortunately, it can also allow property values to fall without a corresponding decrease in taxes.

For instance, if you've owned your home for several years, chances are there is a significant gap between the assessed value of the property and the taxable value, which increased much more slowly. Even though property values have decreased in the last couple of years, the assessed value is probably still higher than the taxable value upon which the property tax is calculated. This means that property taxes probably won't decrease. In fact, you will probably still receive an increase in property taxes based on inflation.

There is an exception to the cap imposed by Proposal A: when the property is sold or transferred. In the year after the property is transferred, the cap is lifted and the taxable value is reset to equal the assessed value. The cap applies thereafter. This means that if you've bought property in the last couple of years, it is possible that the assessed value is less than the taxable value.