

## IMPORTANT TAX INFORMATION

TO: All New Property Owners  
FROM: The Assessor's Office  
RE: Uncapping the Taxable Value and Your Property Taxes

In the year following the sale or other transfer of ownership of property, that property's taxable value must be "uncapped." **If you have recently assumed ownership of a property, this "uncapping" may result in a significant increase in your property taxes.** To better understand this term, read on:

Since the enactment of Proposal A, in March 1994, many changes in the state's tax structure have taken place, which directly impact new property owners. One such change involved the creation of a new term, known as "taxable value."

Prior to 1994, local property taxes were based upon assessed value; that is, the market value of a property, or 50% of its true cash value. Beginning in 1995, the term "taxable value" was introduced. Since then, taxes have been calculated using the taxable value rather than the assessed value. This is good news for long-time homeowners, whose ever-rising market values had been causing property taxes to escalate at an alarming rate.

Following the dictates of Proposal A (now known as Public Act 237 of 1994), local assessors used 1994 assessed values as the basis for 1995 taxable values. From 1996 on, taxable values have been calculated using the previous year's taxable value times the consumer price index (CPI) or 5%, whichever is less. The result is, though market values continue to climb, the yearly changes in property taxes usually involve only minimal increases. CPIs have been under 4% since the inception of Proposal A.

The exception to this rule occurs whenever a sale or other transfer of ownership takes place. **In the year following the transfer of ownership, the taxable value must be uncapped. When this occurs, the taxable value becomes the same as the assessed value.**

Before closing the transaction, which transferred ownership of your property from the seller to you, it is likely that you questioned how much the annual taxes would be. **It is also likely that the estimate you were given was based upon the property's current taxable value.**

**What many new property owners are not told is that the required uncapping of the taxable value can result in a significant increase in the property taxes in the years following the sale.**

---

In the second year after the transfer of ownership, the taxable value may only be increased by 5% or the CPI, whichever is less. This method of increase will continue as long as ownership of the property does not transfer again.

An example of the impact “uncapping” can have on property taxes follows, using an actual property sale for the sake of clarity.

**EXAMPLE:**

The property sold on June 1, 2022 for \$400,000 (true cash value). The Assessed Value (AV) and Taxable Value (TV) will uncapped for 2023, the year following the transfer of ownership at \$200,000 each. Note that the property’s taxable value in 2022 was \$172,796 . To calculate the approximate difference in taxes, use the following formula:

2022 Taxable Value	\$ 172,796
Homestead Millage Rate	x 40.8182
2022 TOTAL TAXES	<u>\$ 7,053.22</u>
* <u>Uncapped</u> 2023 Taxable Value	\$ 200,000
2022 Homestead Millage Rate	x 40.8182
TOTAL TAXES	<u>\$ 8,163.64</u>

\* This reflects what the taxes would have been had the 2022 sale not taken place. The 2023 capped taxable value was calculated by using the following formula:

2022 Taxable Value	\$ 172,796
2023 Consumer Price Index	x 1.05
* 2023 <u>CAPPED</u> TAXABLE VALUE	<u>\$ 181,435</u>
	x 40.8182
	<u>\$ 7,405.85</u>