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STATE AND LOCAL TAX NEWSLETTER

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Real Property Tax Assessment Notices Mailed

GRAND RAPIDS, MI – Monday, February 4, 2008 – The end of January and the start of February marks the mailing of the real property tax assessment notices. The year 2007 was a very difficult and unusual year for real estate sales. Several economic factors combined to drive down real estate sales and real estate sales prices. The net result should be reduced valuations and reduced assessments. In response to economic conditions, the State Tax Commission issued two bulletins addressing the use of single year sales and foreclosure sales to determine real property valuations and assessments.

If you receive a real property assessment notice with a small increase or no increase at all, you may want to appeal. Falling real estate sales and prices may present the homeowner or business property owner a unique opportunity to appeal the real property assessment. A reduction in an assessment now will lock in the valuation for years to come limiting the annual increase to the lower of 5% or the rate of inflation. The inflation rate to be used for the 2008 Capped Value formula is 2.3%. In many areas of the state, real property values have deflated or gone down. The state constitution requires that all real property be assessed at 50% of true cash value. If you believe your assessment is greater than 50% of the value of the property, you should consider an appeal. The first step in the appeal process in some communities is to the assessor and then to the Board of Review.

In response to the economic conditions in Michigan, the State Tax Commission on August 15th issued two bulletins to address the use of single year sales and foreclosures in valuing real property.

Single Year Sales Study

In Bulletin No. 5, the State Tax Commission issued the following guidelines to assessors and county equalization directors for use of single year sales study:

Single-year sales studies may be considered only when there is significant evidence of a declining market. Evidence may include, but is not limited to:

- a. A reduced number of market sales without a reduction in the number of listings
- b. An increase in the number of foreclosure sales
- c. A loss of major employer(s)
- d. A single year sales study ratio higher than the standard 24-month ratio, in combination with items a through c above

Single-year sales studies must contain a sufficient number of valid sales so that a conclusion can be reached that the results of the study are indicative of the real estate market being studied.

If the evidence of a declining market is limited to a subpopulation of a classification of the local unit, or if the distribution of sales is not uniform with respect to that classification, strong consideration should be given to stratification of the study. Proper stratification of a study will include separate ratios for each subpopulation, multiplied by the appropriate adjustment modifier (form 2804).

In Bulletin No. 17 issued December 20, 2007, the State Tax Commission said in instructions to

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Boards of Review: "Sales occurring between October 1 of the previous year through September 30 prior to tax day are to be used in the single-year study. Because the use of single-year sales studies may be a topic before Boards of Review in many areas of the State, Boards of Review are encouraged to familiarize themselves with Bulletin 5 of 2007 and the guidelines related to single-year sales studies.

Real property owners should look at real property comparable sales between October 1, 2006 and September 30, 2007 to determine if the market value of real property has indeed declined. Such a documented study could be used as a basis for an assessment appeal.

[Foreclosure Sales](#)

In Bulletin No. 6, the State Tax Commission issued the following guidelines to assessors and county equalization directors for use of foreclosure sales:

Sales to financial institutions are excluded from a sales ratio study unless the financial institution is using the property for its operations and it was not previously held as collateral.

- Sheriff's deeds are not typically included in sales ratio studies.
- If it is determined that sales from financial institutions are open market transactions the sales may be used if they have been verified.
- All sales must be analyzed and verified to ensure they are arms-length transactions. The appropriate verification process contains but is not limited to:

1. A determination as to whether the type of sale being reviewed is a measurable portion of the market.
2. A determination that the sale property was properly exposed to the market. For example, by listing with a real estate company.
3. A physical inspection of the property to make a determination that the assessment reflects the condition of the property at the time of sale unless the condition can be verified by other means.
4. Receipt of a properly completed real property statement to determine the terms and conditions of the sale unless adequate alternative statistical procedures are utilized to ensure the sales are an adequate part of the market.
5. A determination that the parties to the transaction were not related and each was acting in their own best interest.

- Additional analysis specific to foreclosure transactions:

1. Was a market value appraisal obtained before listing?
2. Did the seller have the right to refuse all offers?
3. Did the property have full market exposure after governmental intervention?
4. Was the property marketed for an adequate period of time?
5. Whether the seller was obligated to prorate taxes in accordance with local custom and provide evidence of title and a warranty deed to the purchaser.
6. Was property purchase "as is" and was property well maintained during the marketing period?
7. Was purchaser supplied with a disclosure and/or lead paint statement?
8. Did seller help with financing? If yes, then the sale must also be treated as a creative financed sale and be treated under the same rules established for adjusting creatively financed sales.
9. Were concessions involved and if so, are they typical of market?
10. Were sale conditions affected by the financial institutions requirement to dispose of the foreclosed property within 1 year to avoid the uncapping of taxable value or because of banking regulation conditions requiring special treatment of property owned by the institution?

- If a sale is used in the sales ratio study, it is also used to help determine land values and Economic Condition Factor's.
- Counties and local units using "usually excluded sales" in a sales study for

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a particular period must maintain documentation of the verification process for each sale included in the study.

- **Once verified for use in a study, a sale is included in the study in the appropriate year in the same manner as all other sales used in the study.**
- **Please note that if the foreclosing institution is also financing the sale for the new owner, the property is subject to analysis for creative financing as outlined in State Tax Commission Bulletin 11 of 1985.**

In Bulletin No. 17 issued December 20, 2007, the State Tax Commission said in instructions to Boards of Review: "The recent increase in foreclosures has caused those transactions to have an impact on the real estate market in some parts of the state. In hearing appeals, Boards of Review are cautioned that foreclosure sales should be scrutinized in the same way as foreclosure sales are considered for inclusion in these ratio studies. Boards of Review are strongly encouraged to familiarize themselves with Bulletin 6 of 2007 and the guidelines related to foreclosure sales."

The EHTC State and Local Tax Group can assist real property owners with a property tax appeal. See the Real Property Tax Reviews and Property Tax Appeals in the list of EHTC SALT Services.

Please stay tuned for more news and follow the [MichiganStateAndLocalTax Blog](#) for information as it becomes available.

If you have questions please feel free to contact me. I would be happy to be of assistance.

Sincerely,

Ed Kisscorni, CPA/MBA



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