

New Construction Assessment Math

In completing field visits, one of the most frequent questions we discuss with property owners is:

“How does the work I’ve done at my house affect my property taxes?”

This is a simple question that can be simply answered. However, to understand why the taxes are calculated how they are, a few of the basic concepts of Michigan’s property tax system are helpful to know.

1. Property taxes in Michigan are “Ad Valorem,” meaning they are based on value.
2. We assess properties at 50% of their market value in Michigan, so the assessed value of new construction is the market value divided in half.
3. Taxes are calculated using taxable value, which is the same as assessed value for new construction.
4. Annual taxes are calculated by multiplying the taxable value times the millage rate.

$$\text{Taxable Value} \times \text{Millage Rate} = \text{Annual Property Taxes}$$

Please keep in mind that the cost to build something and its market value (*usual selling price*) as of Tax Day, December 31st, are not always the same. A quick example of this is a builder who constructs his own home. He may save 15% or more on the cost, simply by using his own trade skills and sweat equity during construction. We are assessing our office’s opinion of the market value of his new home, not his cost to build it.

There are a lot facets involved in the appraisal process, but let’s get back to the question at hand and consider a few examples:

“How does the work I’ve done at my house affect my property taxes?”

1. **I hired a contractor to build a 24’ x 32’ pole barn this year on my property. It cost me \$22,000.**

Cost of construction:	\$22,000
Assessor’s Market Value:	\$18,000
Assessed Value:	\$9,000
Taxable Value:	\$9,000
Total Annual Millage Rate (West Ottawa, 100% PRE):	25.3799
Total Annual Taxes = \$9,000 x 0.0253799 =	<u>\$228.42</u>

2. **We purchased land and built a new house this year. The total we spent on everything was \$278,850.**

Cost of property and new house:	\$278,850
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Assessor's Market Value:	\$285,000
Assessed Value:	\$142,500
Taxable Value:	\$142,500

Total Annual Millage Rate (West Ottawa, 100% PRE): 25.3799

Total Annual Taxes = \$142,500 x .0253799 = **\$3,616.64**

3. We own a rental house (0% PRE) and hired a builder to finish our basement for us in order to have more rentable rooms.

Cost of basement finish: \$25,000

Assessor's Market Value:	\$22,500
Assessed Value (nearest \$100):	\$11,300
Taxable Value:	\$11,300

Total Annual Millage Rate (Port Sheldon, 0% PRE): 43.3799

Total Annual Taxes = \$11,300 x .0433799 = **\$490.19**

I hope these quick examples help to illustrate the impact of new construction on annual property taxes. If I were going to estimate the expense of a home project on my property taxes, I would use the construction cost for the job to give myself an idea. While the Assessor's Office's final market valuation may vary somewhat from the cost spent on the work, I can at least get a gauge for what the taxes will be.

The Port Sheldon Township Assessor's Office appreciates the intuitive and proactive discussions we have with our fellow property owners, and we look forward to working with you as we make our site visits.