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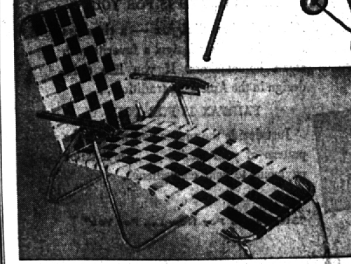
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Only Half Of True Values Assessed

EDITOR'S NOTE: Following is the second in a series of articles on Michigan property taxes. They are from a speech given by tax authority Thomas E. Hurns to the Birmingham Women's club.

By THOMAS E. HURNS

Some states assess property at 100 per cent of true cash value, others at some percentage of such value. We, in Michigan at the present time, follow the percentage method at about 50 percent of true cash value. This practice, of course, requires a higher rate than would be necessary if the practice is effective in keeping government budgets on the conservative side.

Our constitution also provides in effect that all types of property shall be uniformly assessed. The effect is that, for the purpose of determining its true cash value, all property shall be treated the same. Thus, land, houses, plant, equipment, machinery, raw materials, the can of beans on the grocer's shelf and the limousine in the dealer's showroom, city and farm real estate, or residential, commercial and industrial property, shall all be uniformly assessed. Although there are many economic differences between the various types

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property, they are ignored under the rule of uniformity. However, in practice, there is a tendency to recognize such differences with resulting non-uniformity of assessment.

FOR EXAMPLE, the city of Detroit assesses business inventories at 90 percent of cost whereas the state tax commission would assess at about 50 percent of true value and various other assessing authorities would assess at percentages in between the 50 and 90 percent. Detroit's theory is that the economic factor of the rapid turn over of inventories should be recognized. The commission's theory is that the rule of uniformity requires that the inventories be treated the same as all other property. There are several cases in the circuit courts testing this conflict of principles.

Another illustration is found in the tendency of assessors to assess personal property at a higher percentage of true cash value than real property. Whether this results from pressure of householders or from the theory that business which pays the personal property tax has greater ability to pay it does not know. However, the practice does place business in an unfavorable competitive position. There are several cases in the circuit courts testing this conflict of principles.

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THIS IS CALLED the "replacement cost method" of assessing, since the dollars per square foot are computed at current prices for materials and labor going into new buildings. The other methods which I have called to your attention in connection with the assessment of land could also be used. However, our state tax commission, which has the last word with respect to tax standards, favors the replacement cost method and it is in general use in this state.

Since there are so many kinds of machinery, equipment, furniture and fixtures, and other types of personal property, the development of standards for assessing such property has been a tough job. I call the method, which is used more than any other today, the "depreciated cost" or "rule of thumb" method. Under this method the cost of machinery, equipment and furniture and fixtures is listed by its year of acquisition. Depreciation is computed on such acquisitions at 10 per cent per year for the first five years and five per cent for the next five years.

This brings the value down to 25 per cent of original cost where it stays so long as the equipment exists. The balance remaining after these depreciation percentages are deducted, or a percentage thereof, constitutes the assessed value. This method is simple but tends to be discriminatory during periods of extreme inflation such as we have had between the 1930's and 1950's.

THE TAX rates are further adjusted because of county and state equalization but, as we shall see in our discussion of the assessment process, these rate adjustments are actually adjustments to the tax base.

What is our assessment process? In Michigan, the original job of assessing property is carried on by our township supervisors and city and village assessors. This is a part-time job for many of these men. Most of them are under-staffed. Furthermore, all property must be assessed as of January 1st of each year, making it impossible to spread the work evenly over the year. Consequently, these men are doing a good job under rather trying circumstances. A few counties have established bureaus of taxation which render advice and assistance. Assessing is the process of discovering, recording, and valuing property. Except in isolated cases where the taxpayer is careless about reporting all of his property to the assessor, discovery and recording are fairly simple compared with valuing.

THE ASSESSOR is the man with many maps. In valuing land, he will choose a "key lot" in the middle of a block and relate the value of all lots in the block to the value of this "key lot", making due allowance for size and depth and the increased value of corner lots. This is called the "comparative method" of assessing. This is the most common method of assessing. However, if there were a great many sales in the area, the assessor could use the many selling prices or a percentage of such selling prices as the assessed value.

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