Michigan

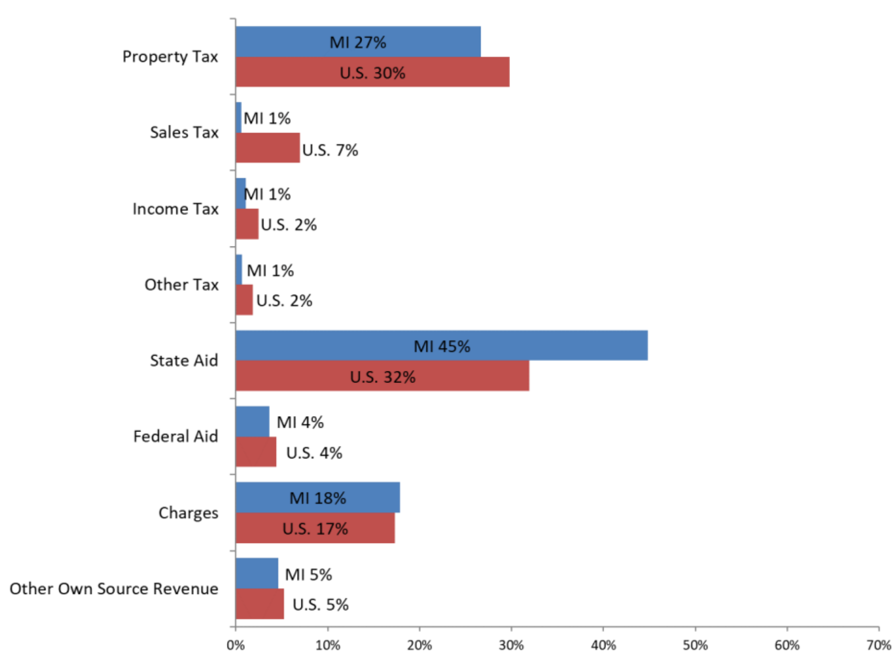
Highlights

In 1994, voters in Michigan approved Proposal A, which reduced local property taxes for schools, especially on primary residences, and substituted a higher state sales tax and a state government property tax, known as the State Education Tax. The incremental revenue from the higher sales tax and all of the state government property tax were earmarked for K-12 education.

The state government property tax is levied on all property at 6 mills and amounted to about 14 percent of total state and local property tax collections in Michigan in 2015 (Michigan Department of Treasury 2016). Local school district property taxes for operating expenses are levied only on non-homestead property at a maximum of 18 mills.

Although total property tax amounts and reliance in Michigan are relatively high, because of the importance of the State Education Tax, property taxes accounted for only 27 percent of total local general revenues in 2014, less than the U.S. average (figure MI-1). Because the State Education Tax is a property tax paid to state government, interstate comparison of local property tax reliance alone is not meaningful for Michigan.

Figure MI-1
Sources of Local General Revenue, Michigan and U.S., 2014



Source: U.S. Census via Significant Features of the Property Tax

Property Tax Reliance

For 2014, property taxes were 3.3 percent of personal income, compared to 3.2 percent nationally, ranking Michigan 18th highest among the states. Similarly, the effective tax rate on a median-valued owner-occupied home was higher than the U.S. average, giving Michigan the 8th highest rank in the country (table MI-1).

Table MI-1
Selected Michigan Property Tax Statistics, 2014[1]

	Michigan	U.S. Average	Rank (of 51) *1 is highest*
Per capita property tax	$1,335	$1,464	*27*
Property tax percentage of personal income	3.3%	3.2%	*18*
Total property tax as percentage of state-local revenue	16.9%	16.9%	*19*
Median owner-occupied home value[2]	$122,400	$178,600	*47*
Median real estate taxes paid for owner-occupied home[2]	$2,174	$2,149	*21*
Effective tax rate, median owner-occupied home[3]	1.8%	1.2%	*8*

Sources: U.S. Census via Significant Features of the Property Tax, American Community Survey

[1] All revenue numbers in this table include the state government as well as local governments.

[2] The statistics for median owner-occupied home value and median real estate taxes paid for owner-occupied home are five-year average statistics for years 2011-2015.

[3] Calculated as the median real estate tax paid on owner-occupied homes as a percent of the median owner-occupied home value.

Assessment and Administration

In Michigan, there are important distinctions between assessed value, capped value, and taxable value (Hallahan 2015). Assessed value is equal to 50 percent of true cash value, which is the same as fair market value. The property owner is taxed on taxable value, which is the lesser of assessed value or capped value. Capped value is the prior year's taxable value plus the prior year's taxable value times the lesser of 5 percent or the annual inflation rate. Upon transfer, property is reassessed at 50 percent of cash value.

Assessment is carried out at the local government level, with state government oversight and equalization. Property is revalued annually. Real residential property is the largest class of property, comprising 68 percent of total real and personal assessed value. Most telecommunications and railroad property is assessed by the state government, not locally, and has a state public utility tax levied upon it, rather than the general property tax.

Michigan is in the process of phasing out its taxation of personal property.

Limits on Property Taxation

Michigan employs a levy cap, rate limit, and assessment limit on property taxation. The Headlee Amendment Levy Cap, which went into effect in 1978, requires a rate reduction if assessed values increase more than the increase in the U.S. consumer price index (CPI) in order to yield the same revenue, adjusted for changes in the CPI. New construction and improvements, as well as debt service, are excluded.

The general rate limit is 15 mills, excluding debt service, but this can be increased to 18 mills with a voter-initiative override. The city charter rate is 20 mills, but that rate limit may also be exceeded with voter approval.

The assessment limit, described above, requires that taxable value not increase in any year by more than the lesser of 5 percent or the rate of inflation measured by the CPI (table MI-2).

Property Tax Relief and Incentives

Michigan employs several residential property tax relief programs. One program exempts all principal residences from the school operating millage. Another exemption, targeted to low-income homeowners, can partially or fully exempt them from paying property taxes.

The Homestead Property Tax Credit, a type of property tax circuit breaker, is available through the state individual income tax for low-income homeowners, renters, and senior citizens. Renters may claim 20 percent of rent as property tax for the credit, which amounts to 60 percent of property tax that exceeds 3.5 percent of income except that seniors and disabled homeowners are exempt from property taxes if their total household resources are less than $6,000. The maximum benefit is $1,200.

The Farmland Preservation Tax Credit, equal to the amount by which farmland property taxes exceed 3.5 percent of income, is available to certain landowners who enter into a developmental rights agreement with the state. Landowners receiving this credit are also eligible for the Homestead Property Tax Credit, but they must report the value of their farmland credit in their total household resources on the application for the Homestead Property Tax Credit.

Exemption or reduction of property tax on industrial or commercial property is available for up to 12 years under specific conditions for renovation, expansion, or construction of new property if approved by a local unit of government and the State Tax Commission. Michigan authorizes tax increment financing and provides economic development tax incentives through two zone-based programs and several stand-alone property tax abatement programs for qualifying business property.

Table MI-2
Property Tax Features of State Governments, United States, 2015

Feature	Michigan	Count for 50 states plus DC
Statewide classification of real property	No	25
Assessment of property primarily by county	No	31
Limits on property tax rates or levies	Yes	45
Limits on the rate of growth of assessed value	Yes	19
Circuit breaker property tax relief program	Yes	34

Sources: Significant Features of the Property Tax

Key Property Tax History

With the adoption of Proposal A in 1994, Michigan instituted a 6 mill state government property tax for education. Local school district property taxes for operating expenses were limited to a maximum of 18 mills on all non-homestead property. A few selected high-spending districts were permitted to collect so-called hold-harmless mills, which are levied only on homestead property in a school district and were intended to allow those districts to continue to have per-student spending above the state foundation. The annual increase in taxable value of all properties (adjusted for structural changes) was limited to the lesser of the percentage change in the CPI or 5 percent.

At the state government level, the general sales tax rate was increased from 4 to 6 percent, with all additional sales tax revenue due to the rate change earmarked for state government support of schools. Simultaneously, the state government adopted a foundation aid school financing system under which the foundation amount varied by district with the goal of establishing a minimum per-student funding level for all districts. The option for local school districts to supplement the state support with local taxes was greatly restricted.

Effectively, then, Proposal A resulted in a tax swap, such that a mix of state government taxes (sales, income, property, cigarette, real estate transfer, lottery) partially replaced the local property tax in funding K-12 education. Equally important was the fact that those state government funds were distributed to school districts in an entirely different way than they had been previously.

Not surprisingly, both property tax rates and property tax amounts decreased substantially (especially for primary residences). Another obvious immediate effect was less geographic variation in property tax rates because the new system imposed uniform property tax rates for K–12 education, with a few exceptions.

Recent Developments

In 2014, voters approved Proposal 1, which was expected to greatly reduce the state's revenue from personal property taxation. Components of the legislation included a small taxpayer exemption, a phased-in exemption for eligible manufacturing property, and a state-imposed essential services assessment on that exempted manufacturing property (but imposed at a much lower rate). The various components of this legislation have different effective dates, but the change will not be fully phased in until 2022.

The city of Detroit began implementing property tax reforms following its bankruptcy filing in 2013 (Sands and Skidmore 2015). In 2014, the Michigan Tax Commission began oversight of Detroit's Assessment Division "in the wake of mismanagement in Detroit's Assessment Division, widespread over-assessments and rampant tax delinquencies" (Ferretti 2017). By early 2017, every residential property had been reassessed, prompting Detroit's CFO to say that "bringing more fairness to the property tax system in Detroit has led to more residents paying their property taxes. Collections have increased steadily from 68% in 2012, to 79% in 2015, and a projected 82% in 2016" (O'Neil 2017). In September 2017, the Michigan Tax Commission voted to release the city from oversight (Ferretti 2017).

In recent years, Michigan has been the epicenter of controversy over the "dark stores" assessment theory. This theory implies that the property of big box stores should be valued based on the sales of similar-sized properties that are vacant or abandoned, thus allowing significant reductions in assessments (Wilmath and Alesandrini 2015). In October 2017, the Michigan Supreme Court denied an appeal by a big-box retailer in *Menard Inc. v. City of Escanaba*, in an apparent win for local governments (Muse 2017).

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Advisor

Ronald C. Fisher, Professor of Economics, Michigan State University

Publication Date

February 2018