LINCOLN INSTITUTE OF LAND POLICY

# Michigan

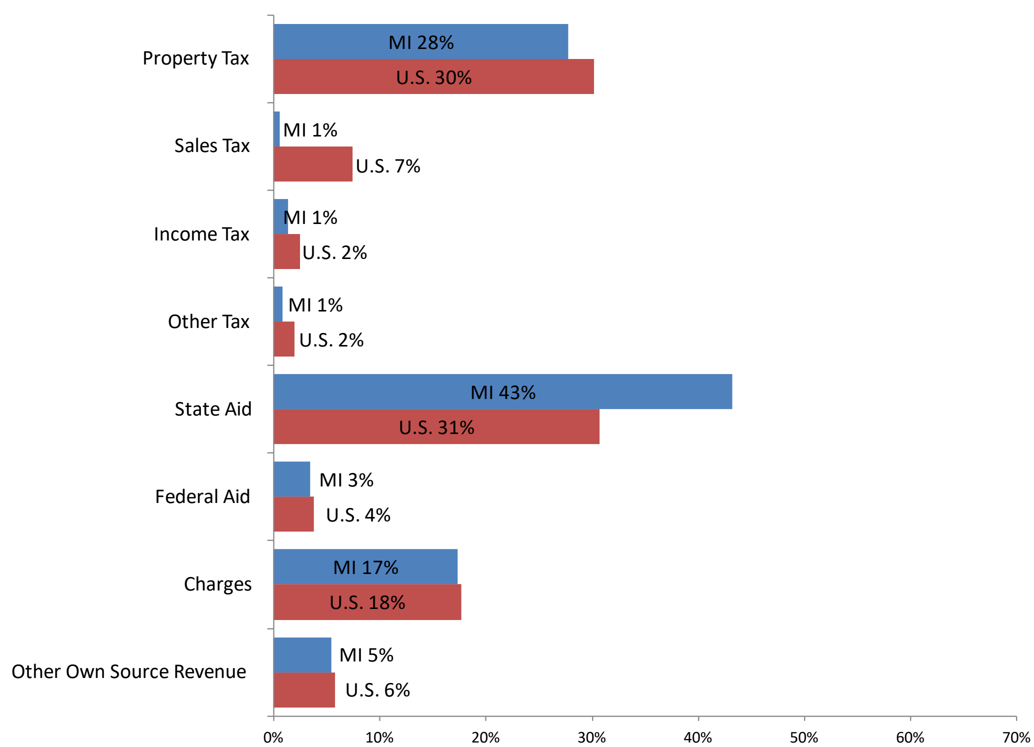
## Highlights

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 was 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 2020 (Michigan Department of Treasury 2021). 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 28 percent of total local general revenues in 2019, 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., 2019**




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

## Property Tax Reliance

In 2019, property taxes as a percent of personal income were at the national average, ranking Michigan 20th highest among the states. The property tax in Michigan accounted for 16.1 percent of state and local revenue, just below the national average of 16.6 percent. The effective tax rate on a median-valued owner-occupied home was higher than the U.S. average, giving Michigan the 14th highest rank in the country (table MI-1).

**Table MI-1**
**Selected Michigan Property Tax Statistics, 2019[1]**

| | Michigan | U.S. Average | Rank (of 51) *1 is highest* |
|---|---|---|---|
| Per capita property tax | $1,524 | $1,758 | *29* |
| Property tax percentage of personal income | 3.1% | 3.1% | *20* |
| Total property tax as percentage of state-local revenue | 16.1% | 16.6% | *21* |
| Median owner-occupied home value[2] | $154,900 | $217,500 | *41* |
| Median real estate taxes paid for owner-occupied home[2] | $2,381 | $2,471 | *21* |
| Effective tax rate, median owner-occupied home[3] | 1.5% | 1.1% | *14* |

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 2015-2019.

[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 by 2023.

## 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 23 percent of rent as property tax for the credit, which amounts to 60 percent of property tax that exceeds 3.2 percent of income except that seniors and disabled homeowners are exempt from property taxes if their total household resources are less than $60,000. The maximum benefit is $1,500. The Poverty Exemption provides up to a 100 percent property tax reduction for property owners meeting income criteria set locally at or above the federal poverty level.

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**
**Michigan Property Tax Features, 2020**

| 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 | 18 |
| Circuit breaker property tax relief program | Yes | 31 |

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.

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 that exempted manufacturing property (but imposed it 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.

Michigan's property tax caps have reduced the ability of local governments to provide services. A recent report found that Michigan cities, excluding Detroit, saw spending decline more than 17 percent from 2008 to 2014 with declines in every service category. The Center for Budget and Policy Priorities found that local governments are relying more on alternative revenue sources to make up for declining property tax revenue (Lav and Leachman 2018).

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. The city's collection rate increased steadily to 80.1 percent in fiscal year 2017 (Carter 2018). In September 2017, the Michigan Tax Commission voted to release the city from oversight (Ferretti 2017).

## Recent Developments

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). Between 2010 and 2017, Michigan localities refunded retailers over $100 million in successful big box valuation appeals (Collins et al. 2018). 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). In recent years, legislative attempts to block the use of dark store theory to appeal assessments have failed. Senate Bill 26 (2019) would have restricted the use of vacant properties as comparable sales in valuation appeals before the Michigan Tax Tribunal.

Act 33 of 2020 authorized local governments to offer installment plans for property tax payments. Property taxes are generally paid in large lump sums. The new legislation aims to reduce delinquency by providing for smaller, more frequent payments. Milwaukee, Wisconsin has a similar program (Langley 2018).

Michigan also authorized local governments to automatically continue property tax relief for homeowners who received the poverty exemption in 2019 and/or 2020 for one to three additional years. Senate Bill 1234 eliminates the requirement for taxpayers to reapply for the program for 2021 unless the ownership or occupancy status has changed. Certain taxpayers may receive benefits through

2023 without reapplying. The poverty exemption provides tax relief up to 100 percent of the tax bill based on income (Vargas 2021).

In January 2021, Michigan Governor Gretchen Whitmer pocket vetoed two Republican-backed bills aimed at reducing property taxes for businesses. The first bill, aimed at supermarket chain Meijer, would have exempted new personal property associated with automated consumer goods handling systems in large facilities or used by a wholesaler (Senate Bill 1153; Eggert 2021). The second bill, Senate Bill 943, would have allowed businesses "that experienced economic hardship as a result of the Covid-19 pandemic" to defer payment of property taxes due in the summer of 2020 without accruing penalties and interest (Eggert 2021).

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## Publication Date

May 2021, data updated February 2022