Michigan

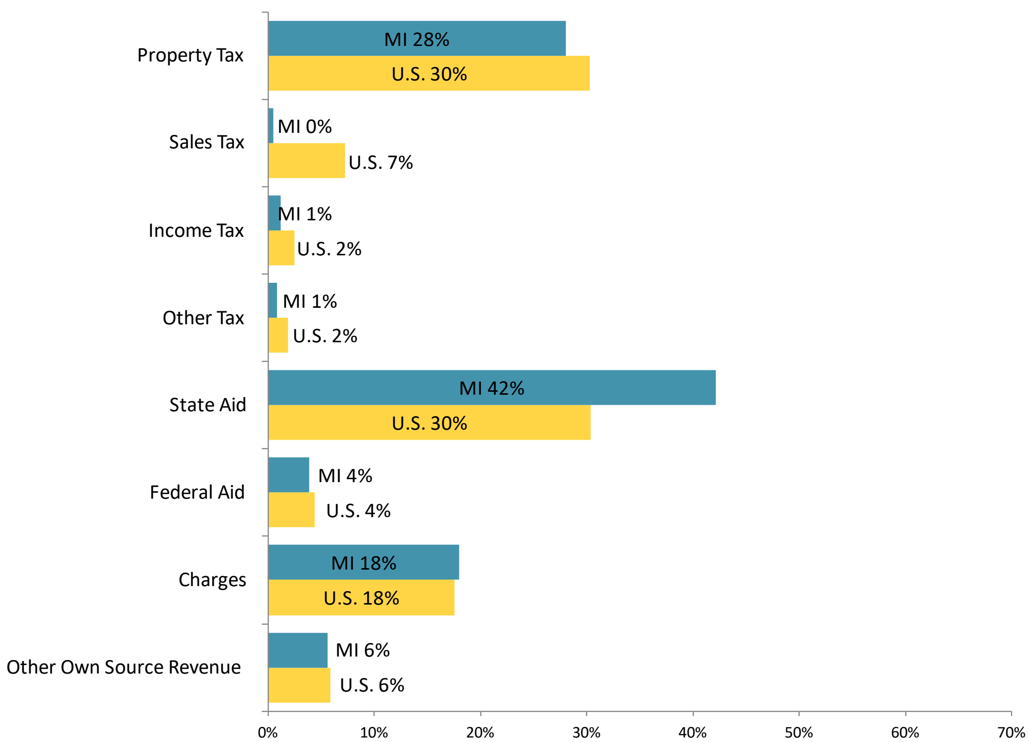
Highlights

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 2022 (Michigan Department of Treasury 2023, 1). Local school district property taxes for operating expenses are levied only on non-homestead property at a maximum of 18 mills.

Because the State Education Tax is a property tax paid to state government, interstate comparison of local property tax reliance alone could be misleading Michigan. Property taxes accounted for only 28 percent of total local general revenues in 2020, slightly less than the U.S. average, but Michigan ranks 19th highest for state and local property tax revenue as a share of combined state and local revenue because of the importance of the State Education Tax (figure MI-1).

Figure MI-1
Sources of Local General Revenue, Michigan and U.S., 2020



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

Property Tax Reliance

In 2020, property taxes accounted for 16.5 percent of personal income, about the same share as the national average, ranking Michigan 21st highest among the states. The property tax in Michigan accounted for 16.5 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, 2020[1]

	Michigan	U.S. Average	Rank (of 51) *1 is highest*
Per capita property tax	$1,594	$1,810	*28*
Property tax percentage of personal income	3.0%	3.1%	*21*
Total property tax as percentage of state-local revenue	16.5%	16.6%	*19*
Median owner-occupied home value[2]	$162,600	$229,800	*41*
Median real estate taxes paid for owner-occupied home[2]	$2,441	$2,551	*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 2016–2020.

[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

Michigan distinguishes 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 70 percent of total real and personal assessed value (Significant Features of the Property Tax). 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.

As of 2023, most personal property tax in Michigan is exempt with Proposal 1 of 2014 fully implemented (Hallahan and O'Loughlin 2021).

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 (Significant Features of the Property Tax).

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 (Significant Features of the Property Tax).

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. The credit is equal to 60 percent of property tax (or rent equivalent) 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. Renters may claim 23 percent of rent as property tax for the credit. 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.

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 law aims to reduce delinquency by providing for smaller, more frequent payments. Milwaukee, Wisconsin has a similar program (Langley and Youngman 2021).

The Farmland Preservation Tax Credit, equal to the amount by which farmland property taxes exceed 3.5 percent of income, is an income tax credit 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, 2021

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	17
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. Although Proposal A equalized per-pupil school district spending, it failed to target aid to the neediest students and schools (Kenyon and Munteanu 2022).

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 greatly reduced 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 had different effective dates, with all eligible property exempt by 2023 (Citizens Research Council of Michigan 2021; Hallahan and O'Loughlin 2021).

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

Michigan has been the epicenter of controversy over the "dark stores" assessment theory. This theory asserts that big box stores should be valued based on the sales of similar-sized properties that are vacant or abandoned, leading to 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). Legislative attempts to block the use of dark store theory to appeal assessments have failed.

Some Michigan communities are fighting back. Residents in Houghton, Michigan staged a community demonstration in response to a pending dark stores trial in the summer of 2023. City Manager Eric Waara told reporters the city attempted to settle the case, originally filed in 2018, without success. The city's largest retailer is seeking to reduce its assessment by 60 percent using dark stores assessment theory. The city claims the retailer's appeal violates a development agreement in which Walmart received incentives to expand in 2004. The city assembled a task force to raise awareness of the issues and to prepare for possible budget cuts (Jackson 2023; TV 6 News Team 2023). In another community, Walmart dismissed three lawsuits with prejudice in 2022 after the county fought the retailer's efforts to reduce its property tax values by about half using dark stores assessment theory (Warren 2022).

In December 2021, Michigan Governor Gretchen Whitmer signed legislation creating a new flow-through entity (FTE) tax as a workaround to the cap on the deductibility of state and local taxes (SALT) for federal tax purposes (House Bill 5376 of 2021). Since the enactment of the 2017 federal Tax Cuts and Jobs Act, the deductibility of individual state and local taxes, including property taxes, has been limited to $10,000 per year. The new Michigan policy allows business owners of pass-through entities to pay income taxes at the entity level thereby reducing taxable income before claiming any individual deductions or exemptions, effectively shielding owners of pass-through-entities from the effects of the SALT limit. As of May 2023, 33 states have enacted an entity level tax since the enactment of the cap on SALT deductions in 2017 (Association of International Certified Professional Accountants 2023).

House Bill 5351 of 2021 more than doubled the business personal property tax exemption, increasing it from $80,000 to $180,000 of true cash value. Under pressure from local government groups, the legislature appropriated $75 million to reimburse localities for the anticipated tax loss in 2023, the year the higher exemption went into effect (Moncrief 2022).

In 2023, Michigan extended and expanded a property tax relief program established during the pandemic to assist residents at risk of property tax foreclosure. The Michigan Homeowners Assistance Fund (MI-HAF), funded with American Rescue Plan Act dollars, provides grants of up to $25,000 to pay for delinquent property taxes, mortgage payments, homeowners insurance, association fees, utilities, and broadband internet. With the expansion, qualifying homeowners can use the grant for delinquent property taxes for all years, even prior to the pandemic (Walker 2023).

In October 2022, a federal appeals court ruled that a Michigan law (the Michigan General Property Tax Act) permitting the state and county governments to retain proceeds from tax foreclosure sales in excess of the tax debt is unconstitutional. In *Hall v. Meisner*, two individual plaintiffs and one couple sued Oakland County, the City of Southfield, and the Southfield Neighborhood Revitalization Initiative, and their officers. In each case, the county conveyed the foreclosed properties to the city for the amount of the tax debt, and the city then conveyed the properties to the for-profit Southfield Neighborhood Revitalization Initiative for $1. The company later sold the properties at market value. Lead defendant Tawanda Hall owed $22,642 in taxes, penalties, and fees; the company sold her property for $308,000. Even though the county conveyed the property to the city for only the amount of the tax debt, the court found that by taking absolute title to the property when the tax debt accounted for only a share of the property value, the county took Hall's property without just compensation in violation of the Fifth Amendment Takings Clause of the U.S. Constitution (Jardine 2022).

In August 2023, Mayor Mike Duggan announced a plan to implement a split-rate property tax in Detroit that would cut taxes on buildings by 14 mills while more than doubling taxes on land (City of Detroit

2023). The proposal was informed by a major study on the potential impact of "Split-Rate Property Taxation in Detroit" by the Lincoln Institute of Land Policy (2022). This change first requires state authorizing legislation to allow for split-rate property taxation by local option, and then Detroit voters would decide whether to adopt the land value tax in February 2024.

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