

**MICHIGAN'S EXPERIENCE
WITH PROPERTY TAX
AND ASSESSMENT LIMITATIONS**



Presented by
**Jay Wortley, Senior Economist
Michigan Senate Fiscal Agency**

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Georgia State University**

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**Michigan has Two Different Property Tax/
Assessment Limits**

- ▶ A limit on the annual growth in property taxes assessed by each local unit of government on existing property.
- ▶ A limit on the annual growth in the assessed value of each individual parcel of property.

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Property Tax Timeline in Michigan

- ▶ **1970s:** Property tax burden relatively high in Michigan compared with other states.
- ▶ **1973:** Circuit Breaker Homestead Property Tax Credit was enacted.
- ▶ **Mid-1970s:** Tax cut movement alive and well in Michigan.
- ▶ **1978:** Multi-faceted Constitutional amendment was adopted that included a limit on property tax growth for each local taxing unit.

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Property Tax Timeline in Michigan (continued)

- ▶ **1978-1991:** Property tax burden remained high in Michigan.
- ▶ **1992:** Property assessments frozen for one year.
- ▶ **1993:** Freeze comes off and 1993 assessments reflect two-year increase.
- ▶ **1994:** Major property tax/school finance reform was enacted. It included a new per-parcel annual limit on assessment growth.

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Property Tax Mechanics in Michigan Prior to 1994 Reform

- ▶ All property was assessed at 50% of market value.
- ▶ All property was re-assessed annually.
- ▶ Property taxes applied to residential real property and business real and personal property.
- ▶ All types of property were taxed at the same rate.
- ▶ The average property tax rate was 57 mills (1 mill = \$1 per \$1,000 of assessed value).
- ▶ A house with a market value of \$100,000 had a \$2,850 property tax liability.

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Limit #1: Headlee Property Tax Growth Limit/ Millage Rollback

- ▶ Constitutional amendment enacted in 1978.
- ▶ A limit on property tax growth for each local government taxing unit (cities, villages, counties, townships).
- ▶ One component of a number of constitutional changes including a State Government revenue limit.

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Headlee Property Tax Limit/Millage Rollback

IF: The total assessed value of all existing property for a local government, not including new property, increases by more than inflation,

THEN: The millage rate is automatically rolled back to a level so property taxes assessed by that local government on existing property, will not increase by more than inflation.

HOWEVER: The local unit may ask the voters to override the automatic millage rollback.

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Example of Headlee Property Tax Limit/Millage Rollback Hypothetical Example - Main City, Michigan

YEAR 1:

Assessed Value All Property	\$1,246,900,000
Millage Rate	46
Property Taxes	\$57,357,400

YEAR 2:

Assessed Value All Property	
Less New Plus Losses	\$1,337,923,700
% Change, Year 2/Year 1	7.3%
Inflation, Year 2/Year 1	2.8%
Potential Property Tax Year 2	\$61,544,490
Capped Property Tax Level Year 2	\$58,963,407
Millage Rate for Capped Level	44.1
Automatic Millage Rollback	(1.9)

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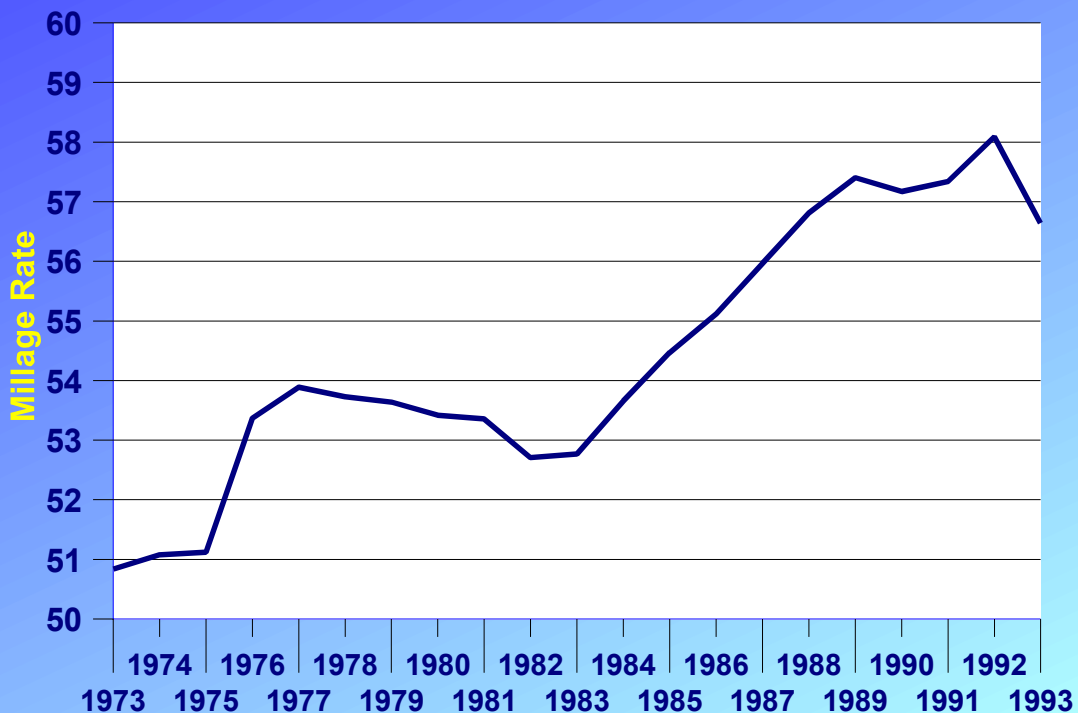
Impact of Headlee Limit on Property Tax Growth

► Positive Impacts -

- Millage rollbacks keep property taxes from increasing as much as they otherwise would.
- Prior to the Headlee limit, the average millage rate increased from 50.8 mills in 1973 to 53.7 mills in 1978.
- Post Headlee limit, the millage rate remained in the 53 to 54 mill level for several years.

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Average Property Tax Millage Rates Levied 1973 - 1993



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Impact of Headlee Limit on Property Tax Growth

▶ Not-So-Positive Impacts -

- Limit applies to a local unit's total property taxes on existing property, not the property taxes assessed on individual parcels of property.
- As a result, individual property owners whose assessed value increases faster than inflation and faster than average, still experiences an increase in their property taxes greater than inflation under the limit.

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Impact of Headlee Limit on Property Tax Growth

▶ Not-So-Positive Impacts (continued) -

- Property whose value does not increase as fast as inflation receives a property tax reduction when the millage rate is rolled back.
- Residential property values have tended to increase faster than other types of property (i.e. business), so residential property taxes have tended to continue to grow faster than inflation under the limit.

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Limit #2: Cap on Annual Growth of Each Property's Assessed Value

- ▶ Constitutional amendment approved by the voters in 1994.
- ▶ Limit Part 1: For each individual parcel of property, the assessed value on which property taxes are assessed may not increase by more than 5% or the rate of inflation, whichever is less.
- ▶ Limit Part 2: The annual limit applies until the property changes ownership, at which time the assessed value reverts back to 50% of the market value and then in subsequent years the limit applies once again.

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Background Information on Limit #2

- ▶ This limit was part of a major property tax and school finance reform measure.
- ▶ The major changes included:
 - Elimination of local school property taxes for homesteads (owner occupied residential property, primary residence).
 - Local school property taxes had averaged about 34 mills.
 - A uniform local school property tax is assessed on all non-homestead property at a rate of 18 mills.

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Background Information on Limit #2

- ▶ The major changes included (continued):
 - Adoption of a statewide 6-mill school property tax.
 - These changes created different tax rates for homestead and nonhomestead property.
 - The average property tax rate was reduced from 57 mills in 1993 to about 31 mills for homesteads and 49 mills for nonhomesteads in 1994.
 - Overall cut in property taxes was offset in part by an increase in the sales tax (from 4% to 6%) and tobacco tax, and a new real estate transfer tax was created.

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Impact of Assessment Cap

- ▶ When first adopted, not much attention was given to the assessment cap.
- ▶ However, over time, it has become a bigger issue.
- ▶ To implement it, each property is given two assessment levels:
 - 1. State Equalized Value (SEV) - equal to 50% of market value.
 - 2. Taxable Value (TV) - Value after applying annual assessment cap.

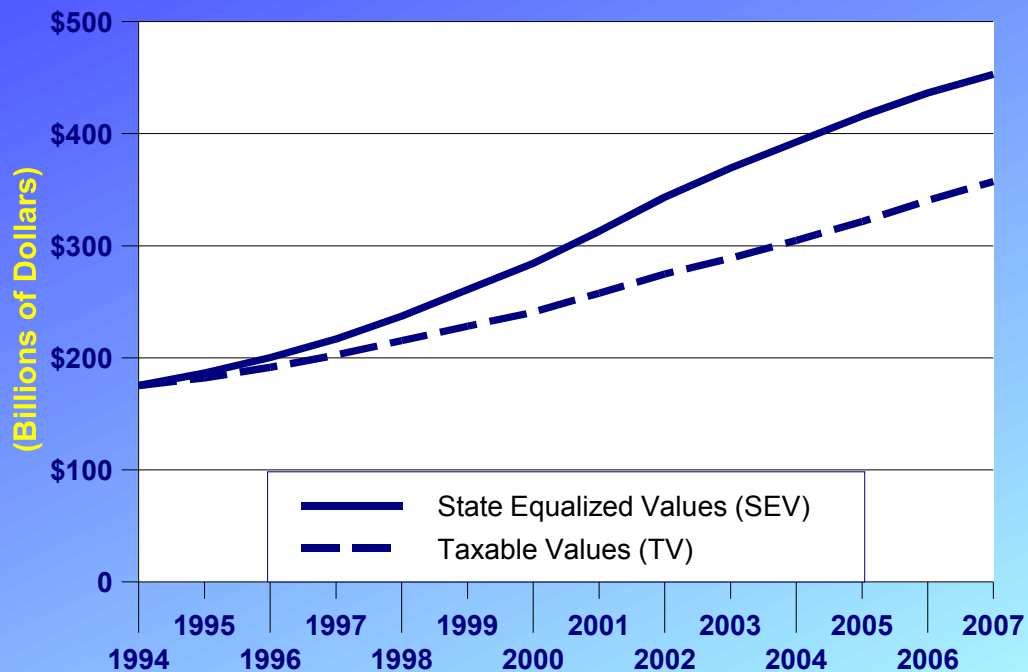
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Impact of Assessment Cap (continued)

- ▶ The first year a house/building is built or changes ownership, the SEV and TV are identical.
- ▶ In subsequent years, if property values are increasing faster than inflation, the gap between SEV and TV will continue to grow.

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Michigan State Equalized Values (SEV) and Taxable Values (TV): 1994 - 2007



Source: Michigan State Tax Commission

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Implementation of Assessment Cap

- ▶ SEV = 50% of market value, so SEV changes each year based on the market value.
 - If market value increases, SEV increases.
 - If market value decreases, SEV decreases.
- ▶ **TV changes each year based on inflation.**
 - It automatically increases each year by the lesser of the rate of inflation or 5%.
 - However, TV may not exceed SEV.

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Assessment Cap: Pluses and Minuses

Pluses:

- ▶ The assessment cap has reduced property taxes from the level they otherwise would be.
 - In 2007, total SEV was above total TV by 26.6%.
 - As a result, without the cap, property taxes would have been higher in 2007 by about \$3.8 billion or 26.6%, all other things equal.

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Assessment Cap: Pluses and Minuses (continued)

Minuses:

- ▶ The assessment cap creates horizontal inequities among taxpayers.
 - Due to the assessment cap, property taxes are determined in part based on how long a person has owned a property, as long as property values have been increasing faster than inflation.
 - This can create large differences in the property taxes on properties that are very similar.

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Assessment Cap Horizontal Inequity Example

	House A	House B
Market Value 1994	\$100,000	\$100,000
Annual Value Increase	5.0%	5.0%
Market Value 2007	\$188,565	\$188,565
Year Purchased	1994	2007
Years Owned by Current Owner	13	1
Inflation/Year	2.5%	2.5%
State Equalized Value (SEV)	\$94,282	\$94,282
Taxable Value (TV)	\$68,926	\$94,282
Property Tax 2007 (34 mills)	\$2,343	\$3,206

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Assessment Cap: Pluses and Minuses (continued)

Minuses (continued):

- ▶ Property owners complain that the assessment cap is hurting the housing market.
- ▶ The claim is that people who have lived in their house for a long time are discouraged from purchasing a new house because the property taxes on the new home will be much higher because the cap comes off when ownership changes.
- ▶ Senior citizens claim that when it is time to downsize, they have to significantly lower the "fair" price so the prospective buyer can afford the higher property taxes.

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Assessment Cap and the Current Housing Market

- ▶ For many homeowners, the value of their house is currently declining in Michigan.
- ▶ As a result, their property's SEV is declining.
- ▶ However, given that inflation is between 2% and 3%, as long as their property's TV is less than its SEV, their TV and their property taxes continue to increase.
- ▶ This is not popular with taxpayers.

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Interaction Between Michigan's Two Property Tax/Assessment Limits

- ▶ The Headlee property tax limit was enacted in 1978.
- ▶ Since the Assessment Cap was enacted in 1994, the number of millage rollbacks under the Headlee Property Tax Limit have declined but have not been eliminated.
- ▶ Those most likely to benefit from both limits are property owners:
 - Experiencing growth in their property value at a rate greater than inflation - they benefit from the Assessment Cap;
 - And who also live in a community with an active housing market (ownership turnover) - they also benefit from the Headlee Millage Rollback.