

# **CITIZENS RESEARCH COUNCIL OF MICHIGAN**

625 SHELBY STREET, DETROIT, MICHIGAN 48226-4154 • AREA CODE 313-961-5377

**ROBERT L. QUELLER**, Vice President - Executive Director

**SEPTEMBER 1991**

## **PROPERTY TAXES IN MICHIGAN**

### **A Brief Description of the Problem and Current Proposed Solutions**

#### **Background**

Property taxes are a major source of tax revenue in Michigan. The general ad valorem property tax yielded \$8.0 billion in 1990, which represented about 40% of total state and local taxes in Michigan. The general property tax supports local units of government and accounts for almost 95% of local tax revenues. Property taxes are levied by townships, cities, villages, counties, school districts (local, intermediate and community college) and by various authorities. The property tax rates vary among local units of government and are subject to various constitutional, statutory and charter limits. The statewide average property tax rate in 1990 was \$57 per \$1,000 of state equalized value. Under the constitution and statutes, property in Michigan is uniformly assessed at 50% of its true cash (market) value on all classes of real and tangible personal property.

#### **Issues**

Property tax levies have more than doubled in the past 12 years, rising from \$3.9 billion in 1979 to \$8.0 billion in 1990. The average state tax rate has increased by only 6.5%, but the tax base has increased by 93%. Property taxes have been a continuing concern in Michigan focusing on several issues: (1) property taxes are “too high” in Michigan; (2) the system of financing elementary-secondary education relies excessively on property taxes and results in disparities in taxable wealth; and (3) assessments are increasing too rapidly, particularly on houses. There are numerous other issues involving uniformity of assessments, property tax abatements, millage roll-backs, etc.

Property taxes are relatively high in Michigan. The U.S. Advisory Commission on Intergovernmental Relations reports that in relation to tax capacity, property taxes in Michigan were 57% above the U. S. average, second highest among the 50 states. Per capita property taxes in Michigan are 33% higher than the U.S. average. The effective property tax rate in Michigan on residential property is 2.9% of full market values, which is second highest after New Jersey among the major states.

There has been continuing controversy about property tax issues and while numerous proposals have been advanced to resolve these problems they have failed to be adopted by the Legislature or have been rejected by the voters. Two of the major difficulties in “reforming” property taxes are that it yields so much revenue (\$8 billion) that significant changes are very expensive, and, it is a local revenue source for about 2,500 units of local government and replacing local revenues with state revenues involves difficult redistribution problems.

## **Current Proposals**

There are five major proposals currently under consideration that would significantly impact property taxes.

**Tax Base Sharing.** It appears that the Legislature will adopt this year a so-called “tax base sharing” plan for local school district operating millage levied on increases in the state equalized values of commercial industrial and utility property over the base year of 1990-91. One-half of the net SEV increase in business property over the base year in each school district would be taxed at the local school district operating millage rate and shared with other school districts. Such taxes collected by in-formula districts (those that are eligible for state school aid under the general membership formula) would be retained by them, while those business taxes shared by out-of-formula districts would be distributed to the in-formula districts on a per pupil basis. The purpose is to reduce the disparities in taxable property values per pupil among school districts. This will neither directly increase nor decrease total property taxes — it simply re-distributes some business property taxes among school districts — although the potential exists for out-of-formula districts to attempt to increase tax rates to offset the loss of business property taxes.

**Assessment Freeze, Limit Increases and Charge Roll-backs.** Public Act 15 of 1991 freezes assessments on real property for one year — 1992 assessments would be frozen at 1991 levels. In 1993 assessments would return to 50% of true cash value (there might be a two-year jump in assessments). A companion measure, HJR H, is a proposed constitutional amendment, subject to approval by the voters in November 1992, that would limit annual assessment increases on each parcel of homestead property to 5% annually or the rate of inflation, whichever is less, beginning in 1993. When the homestead is sold it would be reassessed at 50% of true cash value (current market value at the time of sale). The proposed amendment would also change the Headlee millage roll-back provisions to require millage roll-backs by class of property instead of a uniform millage roll-back of all classes of property.

Historically, Michigan has had a system of uniform general ad valorem property taxes — all property of all classes is assessed uniformly at 50% of true cash (market) value and all property within a taxing jurisdiction is taxed at the same rate. HJR H introduces elements of a classified property tax into the uniform property tax system. Residential property could be assessed at a lower ratio than business property and the millage rates imposed would vary by class of property as a result of differences in Headlee millage roll-backs, with business property taxed at a higher rate than residential. Uniformity among residential assessments would also be severely impacted by the limits on assessment increases on individual homesteads and by reassessing homesteads back up to 50% of true cash value only when they are sold.

**Headlee Assessment Ratio Reduction.** Initiative petitions were filed last year for a statute that would reduce the current statutory assessment ratio from 50% of true cash value to 45% for 1991 taxes and to 40% for 1992 and thereafter. This would provide a 20% reduction in all property taxes levied. The state would be required to reimburse local units for the revenue loss. There is a continuing controversy regarding the sufficiency of the petition signatures.

If the petitions are certified and the Legislature fails to enact the proposal within 40 days, this proposal, too, would be on the November 1992 ballot.

**The House Democratic Homestead Property Tax Exemption.** Petitions for an initiated statute are currently being circulated for a House Democratic proposal to exempt from local school operating taxes the first \$15,000 of the state equalized value of homesteads not to exceed 50% of the SEV of the homestead. School operating millages account for about 60% of total millage levied. In a school district with a 34 mill operating rate, a \$15,000 SEV homestead exemption on homes assessed at \$30,000 or more would reduce taxes by \$510. The state would be required to reimburse all local school districts for the revenue loss. The initiated homestead property exemption statute would finance the plan, in part, by repealing the capital acquisition deduction from the single business tax and repealing the industrial facilities exemption from the property tax. Current property tax abatements would be repealed as well as terminating the program for future abatements. This would represent a \$700-\$750 million increase in Michigan's already excessive tax burden on business.

If sufficient signatures are obtained, and the Legislature fails to enact the initiated statute within 40 days, the proposed statute would be on the ballot in November 1992.

**The Governor's Property Tax Relief Plan.** The Governor has Just proposed a new property tax relief plan. Initiative petitions will be circulated for a constitutional amendment that would provide a 30% exemption for school operating property taxes phased in over five years (a 10% reduction in 1993 and an additional 5% reduction for each of the next four years; a 30% reduction in 1997 and thereafter. The reductions would apply to all classes of property. The proposed amendment would also limit annual increases in assessments on all property to 3% or the inflation rate, whichever is less, until the property is sold, at which time it would be reassessed at 50% of true cash value. The Governor's proposal as compared to HJR H provides a 3% limit on annual increases instead of 5% and applies the limit to all property, not just homesteads. Both permit reassessments only when the property is sold.

The state would be required to reimburse local school districts for the revenue loss from the percentage reduction but not for the limit on assessment increases. No method of financing the plan is specified, although it is contemplated that about one-half of the annual growth in state revenues would finance the plan.