



Wednesday, September 3, 2008

Commentary

Make Michigan's property tax system simpler

Carl Davis

Michigan property taxes are behaving a bit strangely. Despite home values falling in many parts of the state, property tax bills are actually increasing.

Although this bizarre occurrence is understandably frustrating to many Michigianians, the truth is that this is an essential component of the state's ill-conceived Prop A property tax cap.

To understand why, it's necessary to take a quick look at the complex design of the cap.

If in any year, a home's assessed (market) value increases by more than inflation or 5 percent (whichever is lower), then the lower of those two measures is used in figuring out the amount by which the home's taxable value can increase.

In short, this limitation is meant to ensure that property tax bills never jump by "too much" as a result of a leap in housing prices.

Until recently, home prices have been increasing much faster than limits set by the cap, meaning that the taxable value of many homes has been suppressed to a level far below their actual, booming market values.

Despite the recent housing downturn, taxable values under Michigan's capped system are continuing to increase to catch-up with the market values of residents' homes.

Effectively, the agreement established by this cap says: We won't increase your tax bills very much in any given year, but this means that we may end up increasing them by a little bit every year regardless of what's going on with your property's actual value.

Unfortunately, the idea of eliminating the second-half of this agreement has gained some popularity as of late.

Aside from starving state and local coffers, preventing taxable values from being allowed to catch up with market values would further divorce the Michigan property tax from being a tax on the true value of property. All attempts to align taxable and market values during slow-growth periods would come to an end.

While seeing your tax bill increase as your home's value plummets is certainly frustrating, it's the unavoidable price Michigianians must pay for being allowed to enjoy low taxes during all those years of booming housing prices.

Got all that? If not, it's probably not your fault. The Prop A cap is a notoriously complicated type of property tax relief.

What makes more sense, as dozens of states have already recognized, is providing relief through a "circuit-breaker" credit that offers the largest breaks to those whose incomes are lowest relative to their tax bills. This offers a much simpler solution to the problem of being "taxed out of one's home" and can do so at a fraction of the cost since the state's wealthiest homeowners do not receive a tax break.

Michigan already has in place a fairly robust circuit-breaker. If lawmakers are looking for a way to provide Michiganians with additional tax relief, enhancing that program would be far preferable to ending the "catch-up" component of Prop A.

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