



The Costs and Benefits of Property Tax Exemptions in Michigan

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Property tax revenue is the most important source of funds for operations in most Michigan municipalities. It generates billions of dollars a year to pay for things like schools, public safety departments, transportation, infrastructure, and governance for local residents and businesses.

Most - but not all - property owners in Michigan pay property tax. As a society, and through legislation passed by lawmakers, we have decided that some properties should be exempt from property tax because of the nature of their use, their contribution to society, or other reasons. According to a 2014 study done by the University of Michigan, 90 percent of all Michigan jurisdictions have at least one tax exempt parcel within their boundaries.

Examples of tax exempt properties include houses of worship, schools, and property owned by non-profits, as well as certain commercial and industrial facilities that qualify for special exemptions under various state laws including, for example, Industrial Facilities Tax Exemptions, Neighborhood Enterprise Zone Act, and Renaissance Zone Act.

While a significant amount of land and buildings in Michigan are exempt from property tax, the owners of these properties benefit from snow removal, road maintenance, public safety systems and other services that are funded in large part by other property tax owners. In other words, exempt properties receive property tax funded services, but reduce the property tax base relied on to finance the delivery of those services.

According to the University of Michigan study cited above, 39 percent of local jurisdictions (and 55 percent of the state's largest communities) report that tax-exempt properties represent a moderate or significant portion of all potential property tax revenues. Local jurisdictions also report that 32 percent of tax-exempt properties and the organizations that own them (which rises to 59 percent in the state's largest communities) account for a moderate or significant

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source of service demands.

However, tax- exempt properties don't always act as a drag on the delivery of governmental services - in some instances they serve to offset other service demands by providing community benefits such as homeless shelters, pantries, and elderly housing that may relieve the burden of government.

Despite the mixed feelings about the fiscal costs of tax-exempt properties, there appears to be little momentum among local jurisdictions to take steps to offset these costs. According to the University of Michigan study, only 24 percent of local leaders reported that there had been either a "great deal or some amount" of discussion among local leaders about the impact of tax-exempt properties. 72 percent reported having "little or no" discussion. The study indicates, however, that discussion was greater among larger communities.

The bottom line is that it's unlikely that property tax exemption rules in Michigan will be changing in any significant way anytime soon. In future issues, I will be diving deeper into these issues, including exploring different discrete categories of exemptions and analyzing the lessee-user tax, in order to provide leaders of local units with greater clarity on how property tax exemptions impact their communities.
