Uncapping Explained

During your home-buying process you may have heard, “Your taxes will go up the year after you buy the home, but not by much.” Sometimes that is the case but sometimes it is not.

The leading factor determining if and how much your property taxes will go up is the number of years the previous owners lived there. Here is why that matters:

- Michigan property owners have two values assigned to their home, State Equalized (SEV) and Taxable.
- In Michigan, SEV is required to represent 50% of true cash value. True cash value is the price the house would usually sell for on the open market.
- In Michigan, Taxable Value can only increase at the rate of inflation or 5%, whichever is less.
- SEV must stay at 50% of market value and is not restrained by the 5% or rate of inflation rule. In a growing real estate market, SEV rises faster than the taxable Value.
- The year following a transfer of ownership the taxable value “uncaps” and is reset under the new ownership to equal the SEV. It is then “capped” again and can only rise at the rate of inflation or 5% (whichever is less) each year until the next qualified transfer of ownership occurs.

Typically, the longer the previous owner lived there, the greater the difference between Taxable Value and SEV. When the home “uncaps” the year following a transfer of ownership, the tax bill is usually higher than it was for the previous owner. If the previous owner has lived there for 20 years the “uncapping” will be a lot more significant than if the previous owner bought the home only lived there for 5 years.

Example of “Uncapping”:

2020 - Taxes at time of purchase

True Cash Value: $200,000

Assessed Value: $100,000

Taxable Value: $75,000

Property Taxes (based on rate of 0.03228490 mills): **$2,421.37**

2021 - Taxes for the year following the purchase

True Cash Value: $210,000

Assessed Value: $105,000

Taxable Value – Uncapped: $105,000

Property Taxes (based on rate of 0.03228490 mills): **$3,389.91**

Important Information about your Property Taxes

Important Definitions

Millage Rate: is the number of dollars of tax assessed for each $1,000 of property value. A rate of 10 mills means that $10 in tax is levied on every $1,000 in assessed value.

Principal Residence Exemption (PRE) or "homestead exemption": – A 100% exemption from 18 mills of school operating tax for property that is the principal residence of a property owner. The owner must own and occupy property to qualify.

State Equalized Value: One half (1/2) of your property's true cash value.

Taxable Value: The value used to calculate your property taxes. A property's taxable value can only increase annually by the rate of inflation or 5%, whichever is less, unless there is an addition to the property (i.e., physical improvement or omitted property) or the property's ownership transferred during a previous tax year. A property's taxable value can also decrease if there is a physical loss to the property. The taxable value may never be more than the SEV.

True Cash Value: - The value that your local assessor believes is the property's fair market value or usual selling price as of December 31 of each tax year at issue.

Uncapping of the Taxable Value: - When the property's ownership transferred during a previous tax year, the property's taxable value will be uncapped; (except for exempt exceptions) if uncapped, the taxable value becomes the same as the property's state equalized value.

Laketon Township has two tax billing cycles. Summer taxes are billed July 1st , due September 14th and Winter taxes are billed December 1st and due February 14th . These taxes although billed separately are for the whole year. We send notices of taxation even if you have an escrow account. Taxes are billed for current year; Example: 2022 summer, 2022 winter are 2022 taxes.

In Michigan, property taxes are calculated by multiplying the taxable value of a property by the local millage rate. The taxable value is a combination of different formulas which starts with a local assessment determined by your local assessor.

The local assessor estimates what properties are worth every year, even if they haven't been sold recently. This assessment is always half of what the assessor believes to be the "true cash value" of a property. That assessment is proposed until the close of the March Board of Review. If it's not challenged by the property owner during the March Board of Review, the home owner loses their right to appeal that assessment until next year. The assessment then becomes the state equalized value. Every February property owners are mailed their notice of assessment, for that year. Your property values are given on that notice, should you not agree with the values you may request an appointment with your municipality's Board of Review. Each year your municipality will have two dates in March for this review.

Property tax in Michigan is governed by something called The Headlee Amendment, an amendment to the Michigan constitution approved in 1978. It requires voter approval for millage increases or new millage bonds. The Headlee Amendment limits how much taxes can go up when property values go up, and limits the revenue that can be collected on a millage to the amount it was originally meant to generate, plus inflation. So, if property values go up, the rates can go down, but the revenue generated stays the same. Millages can fund just about any local project or service. There are base operating millages, millages for fire and police, for libraries, 911 centers, bus lines, roads and infrastructure, parks and trails, youth sports programs; if it's something a local government pays for, the money can be generated through property taxes...but only if the voters say yes.