

Uncapping Explained

What is Property Tax Uncapping?

Property tax uncapping occurs as a result of a change in ownership of property. In Michigan, the **Taxable Value (TV)** can only increase by the rate of inflation (IRM) as determined annually by the State, or 5%, whichever is lesser. When there is a transfer of ownership, the TV “uncaps” to equal the **State Equalized Value (SEV)** the following calendar year. The SEV is assessed at 50% of the market value and typically rises at a rate much faster than the TV. Therefore, every transfer and “uncapping” of a property could lead to a significant increase in property taxes. Property owners need to be aware of the implications of uncapping to make informed decisions about their real estate assets and their property tax budget.

What Triggers Property Tax Uncapping in Michigan?

Property taxes are uncapped by a non-exempt** **transfer of ownership**. Michigan defines “transfer of ownership” as “conveyance of title to or a present interest in property, including the beneficial use of the property, that value of which is substantially equal to the value of the fee interest.” MCL 211.27a Transfers of ownership include deeds, land contracts, deeds in trust, and transfers due to intestate succession. The year following a transfer of ownership is executed, the taxes for that property will be uncapped.

exempt transfers of ownership only apply to property classified as Residential (400s) Real Property, not used in conduct of business.

The Mechanics of Property Tax Uncapping in Michigan

Property tax bills are calculated using a formula that involves three key components: *assessed value*, *taxable value*, and the *millage rate*.

1. **Assessed Value (AV)**: based on the property’s market value or worth. This value is 50% of the True Cash Value (TCV). AV does not impact the actual tax bill unless there is an uncapping event.
2. **Taxable Value (TV)**: the lesser of the AV or the Capped Value (CV). CV is the TV from the previous year, adjusted for any additions or losses (new or removed structures) and multiplied by the IRM. If no physical changes have occurred on the property in a year, the State law limits the annual increase in TV to the lesser of 5% or the IRM.
3. **State Equalized Value (SEV)**: determined by the local assessor, approved by the County and then the State, the SEV is meant to represent approximately 50% of the property’s market value. The SEV is the final AV after the process of Equalization is completed for the year.
4. **Millage Rate**: rate set to fund public schools, local services which are calculated at a rate of 1 mill equals \$1 per \$1,000 of a property’s TV. Certain Millages are determined in specific laws (School Operating, State Education Tax (SET), Village taxes, and others). All other Millages must be presented on the ballot and voted on by the voters in the jurisdiction where the mills will be levied.

For more information regarding Uncapping and Transfers of Ownership in Michigan:

<https://www.michigan.gov/taxes/property/change-ownership>