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Michigan property tax bills to increase in 2023, thanks to inflation

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Every year, Michigan homeowners get a heads-up on how much their property taxes could be going up. And this year, we're getting hit by warnings that inflation will send taxable home values soaring by 5% on 2023 tax bills — the biggest increase in 28 years.

If you bought a home last year — or took on a big construction project to add on a bedroom — your taxable value likely would be going up more than 5%. But make no mistake, high inflation is going to hit property taxes in Michigan even if you just sat in your house and did nothing but order pizza and binge-watch "The Office."

Things could have been worse. Michigan homeowners would have been looking at a 7.9% hike based on the actual change in red-hot inflation. But Michigan law puts a 5% cap in place.

Homeowners will experience this bigger-than-normal increase when their summer property tax bills arrive in July. And yes, we're going to need to prepare for another big hike — possibly another 5% round — in property taxes next year too, thanks to persistently stubborn inflation.

How inflation hits property taxes

High inflation contributed to a rise in property tax values for 2022, too.

The inflation rate multiplier for 2022's property taxes in Michigan hit 3.3% — the highest it had been in several years. The multiplier had peaked at 4.4% in 2009. And it was 3.7% in 2007 and 3.3% in 2006, but it was significantly lower for about 12 years before rising in 2022.

When inflation was low in recent years, Michigan homeowners might have been looking at an annual hike of 1% or 2% in the taxable value.

It says: 'This is not a tax bill'

Many homeowners have no idea how inflation comes into play regarding property taxes or even how the complex Michigan property tax system works. And they might not be prepared for paying more in taxes.

Unfortunately, many tend to ignore a standard one-page notice printed on white paper that's sent out early each year. It's called a "Notice of assessment, taxable valuation and property classification."

The right-hand corner on the top of that notice states in bold, black letters: "This not a tax bill."

So, if it's not a tax bill, well, you might skim it, toss it in a drawer and easily forget about it. But you shouldn't.

Always read your tax assessment notice

"Rule No. 1: Always look at your assessment notice every year. Do not ignore it," said Patrick Anderson, a longtime Michigan economist and CEO of the boutique Anderson Economic Group consulting firm in East Lansing.

"The fact that it says across the top 'This is not a tax bill,'" Anderson said, "does not mean that it doesn't directly lead to not only one tax bill but a whole series of tax bills."

The notice gives you a good idea of what might be ahead for your property taxes when the major bill arrives in the summer.

I spoke with Anderson last year and he predicted then that the inflation adjustment for 2023 was already "baked in at 5%" for this year, given that inflation was extraordinarily high in 2022.

He's not 100% certain about what's in store for 2024, given that we need more inflation data ahead, but he said it's likely that the 5% cap could be hit again next year.

"Obviously, inflation continues to be high — and above 5%," Anderson said. At this point, he said, we are looking at a maxxed out 5% increase for 2023 tax bills and what's likely to be another 5% increase for 2024.

It's no secret to anyone who paid rent, filled up the tank with gas or lugged a bag of groceries that inflation roared out of control in 2022. The consumer price index spiked by 9.1% over 12 months through June 2022 — the largest increase since November 1981.

Since last June, we've see inflation cool off ever so gradually, but it continues to percolate. The consumer price index rose by 6.4% for the 12 months ending in January. February's inflation data is set to be released March 14.

When it comes to Michigan property taxes, the latest inflation calculation for 2023 tax bills takes into account inflation data for October 2021 through September 2022.

What can 5% mean? For example, a home with a taxable value of $73,220 in 2022 will see its taxable value go up by $3,660 — or 5% — in 2023. The taxable value goes up to $76,880 in this example on a home that wasn't sold in 2022.

How much a higher taxable value on a home will drive up your property tax bill will depend on where you live and the millage rate in place. You might be looking at an extra $150 to $300 on 2023 property taxes for some modest homes — or significantly more based on your home value and millage rate in your community.

Each year, of course, you're paying that higher rate and then some as inflation builds.

How the cap works

In Michigan, homeowners have an overall cap on how much the value of their home can go up each year. The annual assessment increase for each property is constitutionally limited to 5% or the inflation rate, whichever is less.

When property is sold or transferred, the rules change. New homeowners need to understand that the limit or cap on the growth in taxable value would not apply to a property the year after it is sold.

Some complex exceptions can apply. In the case of a death, for example, a son, daughter or spouse to whom the property is transferred often can maintain the cap on taxable value as long as the property isn't rented out or used for commercial purposes. Some other relatives are covered, too. Every situation is different, so you should discuss your situation with an attorney or tax adviser.

The inflation cap and other rules were put into place in 1995 after Michigan voters approved the constitutional amendment, known as Proposal A, in March 1994.

Proposal A cut property taxes and put a limit or cap on rising property taxes for many homeowners. The proposal also raised the state's sales tax rate to 6% from 4% at the time. Anderson was a deputy budget director for Michigan when the measure was being proposed and helped implement the new constitutional provisions.

"The era in which this property tax revolt occurred was associated with high inflation," Anderson said, "and homeowners getting pummeled by assessment increases."

The country got inflation under control for the most part after the mid-1990s. "We have lived through two and a half decades in which inflation was low and predictable," he said.

"Now, we're back to the high inflation era of the 1970s and '80s," Anderson said.

While many homeowners might be able to ignore how inflation would hit their property tax bill in the past, that's not the case any longer.

Why you need to review that assessment notice

The most important number to read on the notice sent early in the year is what's listed as the taxable value for your home. Your property taxes will be based on that amount unless you appeal it before the local board of review in March. See your notice for dates and times for those meetings.

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Anderson said homeowners want to review that assessment, see whether the property is correctly listed and review whether the assessed value makes sense given what you know about home sales in your area.

"Mistakes are made in the assessing process," Anderson said. "And the problem with tax assessments is that mistakes can compound over the years."

It's possible, he said, that the taxable value on your home is too high, maybe there's a discrepancy in the size of the square footage listed for your home. You'd want to know what the comparison average selling price per square foot is for properties that are being used as a comparable value by the assessor. Look for any glaring differences, such as age for the home, the lot size, number of bedrooms, or even a garage.

It's also possible for some homeowners that the market value is higher than what's listed on the assessment notice, too. And most people won't want to appeal an assessment in that case.

More: Michigan property tax bills are about to go up: Why homeowners will pay more

In Michigan, the assessed value is equal to 50% of the market value. But the taxable value is often lower than the assessed value if you've been living in the home for many years.

Taxable and assessed value will be the same in the year after you buy a property in Michigan, but the gap between the two numbers will usually grow the longer you own the property.

What new homeowners need to know

Some new homeowners who don't understand Michigan's property tax system face "payment shock" when their monthly mortgage payment goes up dramatically a year after they bought the home.

Real estate agents say that in some dire cases, homeowners end up needing to sell a home because they didn't realize how much their property taxes — and monthly payments — will go up, especially in a super-hot real estate market like we saw in the past few years.

Others sometimes will reconsider buying a home when they discover the extent of the property tax bill they'd face after a purchase.

Albert Greer, who lives in Dearborn Heights, had wanted to buy a home for around $159,000 in Redford Township last fall. But after due diligence, he backed out of the deal when he learned how high the property taxes would be and how much that would drive up monthly payments. Mortgage rates kept climbing at that time, creating a double whammy. It just wasn't affordable.

"It was going to be too much," Greer said. "I stopped shopping."

Greer, who retired from what was then Chrysler's Sterling Heights Assembly Plant in 2008 during the Great Recession, has been renting for about seven years. Greer, 69, said he'd like to resume looking for a home in the spring, perhaps if mortgage rates and home prices come back down a bit.

Potential home buyers are often "monthly payment driven," said Tim Gilson, an associate broker with Good Company in Royal Oak.

When they discover that higher than expected property taxes will drive up their monthly payments, he said, some potential buyers no longer feel comfortable closing the deal.

"It's not unusual when working with clients that they identify a property they really like, and upon researching what the new tax bill will be after the taxes uncap, they back away from buying the home," Gilson said.

When a home is sold, the taxable value resets to the market value, which often can be the sales price paid when the property changed hands. "A transfer of ownership will cause the taxable value of the transferred property to uncap in the calendar year following the year of the transfer of ownership," according to the Michigan Department of Treasury.

In Michigan, the assessor cannot simply set the state equalized value at the sale price for the home, though. The reasoning is the buyer might have been uninformed and overpaid or the home might have been transferred at a super low price to a family member or friend.

Many new homeowners don't realize how much their property taxes will go up, compared with what a longtime owner was paying. If a previous owner held a property for 30 years, the new owner could be looking at property taxes that could be nearly double in some cases than what the previous owner paid.

After a sale, the taxable value on that home goes back to the state equalized value — which is half of the property's cash value. After the sale, annual taxable value increases are capped again with the new owner.

Potential buyers need to know a home's state equalized value when they're trying to estimate a property's tax liability.

A mortgage servicer is going to do an escrow analysis each year to make sure you're paying enough each year as part of your payments to cover property taxes. Escrow accounts are common, for example, if you don't have a 20% down payment or more on the home when you take on a conventional loan to buy the house.

Drew Miller, 33, bought his home in Madison Heights in April 2021 for around $225,000. Great location, finished basement, lots of windows and natural light for plants, an attractive place to call home.

But Miller was astonished when his mortgage servicer wanted an extra $560 a month last October to cover higher property taxes and an escrow shortfall for what was already collected.

His monthly payment — which covered the mortgage, insurance and property taxes in an escrow account — was to soar from around $1,240 a month to about $1,800 a month.

"I kind of panicked," Miller said.

"That's an understatement."

He did a Google search, talked with a family friend in the mortgage business and tried to figure out what to do next. Somewhere along the way, he learned that he might be able to get the servicer to work with him to spread out the payments needed to cover the escrow shortage.

He was able to work with the servicer to space out the catch-up over three years, instead of one, getting his monthly payment down to around $1,600.

His 2022 property tax bill — after buying the home in April 2021 — went up by nearly $3,600 after the new assessment. The taxable value skyrocketed from $38,230 in 2021 to $92,340 in 2022.

Yes, the taxable value on his house went up a startling 140%.

Miller — who used to be a paralegal but is now in graduate school for social work at Wayne State University — said it seems like the closing company vastly underestimated the payments to make it seem like homeownership was more feasible.

He'd suggest that any potential homeowner take time to carefully review what property taxes will be once the home is sold and take time to understand how much higher the payments might go. Homeowners need to ask whether the monthly payment is even accurate to cover taxes for the new homeowner once that new taxable value after a sale kicks in — let alone any hikes due to inflation.

The state of Michigan has an online tool called a "Property Tax Estimator" that can offer limited guidance on potential property taxes in a given town. See www.michigan.gov/taxes/property/estimator to run some numbers. Future homeowners need to use the State Equalized Value. But even that value will tend to go up more after a purchase.

Miller received his tax assessment notice this year — the one that indicates a 5% increase in the taxable value for 2023 — but he told me he didn't study or realize that he was looking at higher taxes yet again down the road.

"I didn't look at it super closely because it looked like I wouldn't have to pay that until the house sells," Miller said.

Perhaps, not surprisingly given the complex system, Miller misunderstood how taxable value impacts the bills of current homeowners. After giving the notice of assessment a second look, Miller discovered that the change in taxable value will increase his 2023 tax bill by $272.35 based on 2022 tax rates.

He now knows that paper that arrives each year is part of the complex puzzle.

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