



# PROPERTY TAX IN MICHIGAN

## HEADLEE, PROPOSAL A, AND MODERN CHALLENGES

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Michigan's property tax system is the product of decades of constitutional amendments and state policy choices that have shaped local revenue authority and the taxpayer experience. This report summarizes these changes and outlines the system's current challenges.

### PROPERTY TAX: LIMITATIONS AND LOCAL REVENUE

Property taxes in Michigan have long been an important source of funding for government services. While property taxes today generally fund local government and public education, there was a time when property tax was the primary revenue source for all governments in Michigan. Each year, Michigan property owners pay a 6-mill (\$6 for every \$1,000 of taxable value) State Education Tax (SET) to fund public education, in addition to general property taxes that fund local government services. In 2024, the average statewide millage rate including the SET was 42.21 mills.<sup>i</sup> While the Michigan Constitution establishes base limits for general property taxes, these limits exclude things like debt service and jurisdiction-specific charter limitations. Limits can also be increased with voter approval.

#### Property Tax Limitations

Michigan's local funding system operates in a tightly restricted framework, with limited revenue options that create a heavy reliance on property taxes and state transfers. Most states limit the maximum property tax rate a unit can apply, the growth in taxpayer property value over time, or revenue growth in a jurisdiction each year. Michigan limits all three. In addition to limits on total millage rates, the [Headlee Amendment](#) and [Proposal A](#) impose restrictions on both the growth in total property tax revenue for a local government and the growth in taxable value for individual properties.

Michigan local governments have few alternative sources of revenue. Other than a city income tax, which requires voter approval, and certain counties and cities which may levy tourism-related taxes, Michigan local governments are restricted from levying additional taxes to raise revenue. Property taxes annually make up approximately 50% of general fund revenue across the state for counties, cities, villages, and townships combined (See Figure 1).

#### Revenue sharing

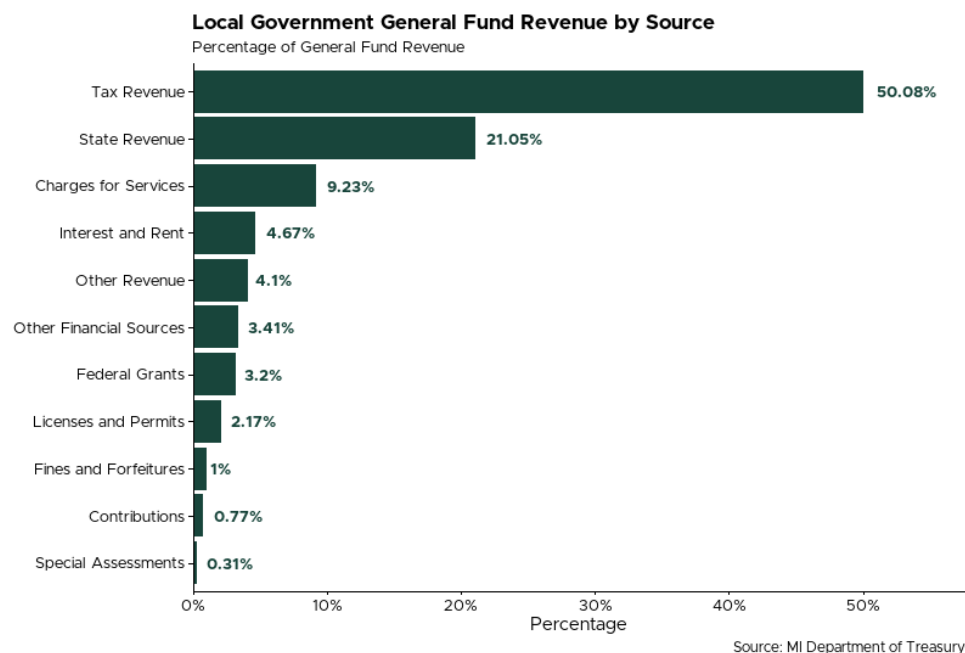
Another primary source of local funding is state revenue sharing, which was originally introduced to replace lost revenue from earlier changes to the property tax. Revenue sharing is distributed through two formulas. **Constitutional Revenue Sharing**, established in [Article IX, Section 10](#) of the Michigan Constitution, requires that 15% of the first 4% of the state sales tax be

distributed to cities, villages, and townships. In 2025, these units received a total of \$1.1 billion, which made up 9.3% of their general fund revenue. However, the 2025 transportation funding package, which removed the state’s sales tax from the sale of gas at the pump, will negatively impact constitutional revenue sharing going forward, as total sales tax revenues statewide will be reduced.

**Statutory Revenue Sharing**, specified in state statute ([MCL 141.901 et seq.](#)), is an additional allocation from the sales tax and is appropriated by the legislature to cities, villages, townships, and counties via a formula each year. In 2025, this totaled \$624.7 million, which is 5.3% of all local general fund revenue, but local units have faced significant reductions in revenue sharing for many years since 2000.<sup>ii</sup>

A consistent trend over the years has been the state legislature narrowing the property tax base or adding property tax exemptions. These actions are frequently accompanied by pledges to hold local units harmless through replacement revenue, which has often fallen short leaving local units with less revenue than before.<sup>iii</sup>

**Figure 1: Percentage of Local Government General Fund Revenue by Source**



Public schools are also limited in their revenue options. Beyond the 6-mill State Education Tax, school districts can levy operating millages on non-homestead properties, which do not apply to most taxpayers. Districts may also pursue voter approved bond proposals to fund construction or improvements in infrastructure, facilities, equipment, and technology.

With few other options, and with general property tax revenue unable to keep up with the cost of inflation, local governments and school districts have repeatedly sought voter approval of millage increases. Some millages support new services or debt for capital investments, whereas others help local units maintain service levels through periods of reduced state revenue sharing.

Michigan’s local government system is defined by these limitations, which create a reliance on property taxes and state transfers to fund local government services. While Michigan’s overall property tax burden ranks relatively low when compared nationally, multiple factors may be driving increased discontent with the current system:



- **Lack of diversification:** The fact that local governments have almost no alternative revenue options means they rely on voter approved millages to fund essential services. Even when requests for millage renewals or new millages may not significantly increase taxes, voters are likely to be more aware of the pressure on property taxes due to the frequency of millage requests in the context of broader concerns over housing affordability.
- **“Uncapping” Surprise:** New homeowners face a “pop-up” in property taxes when a property is sold and taxable value resets to roughly 50% of the home’s market value. This can create a significant increase in monthly costs for buyers who may be unaware of the mechanisms that limit property tax growth for long-time homeowners.

## PROPERTY TAX REFORMS

Since 1964, a few significant changes have altered the property tax structure to create the system that exists today. For the most part, these changes were implemented to limit growth in total government revenue and the burden on taxpayers.

### The Headlee Amendment

In 1978, in response to high inflation and property value increases, voters approved the Headlee Amendment in an effort to limit property tax burdens. The amendment was proposed as part of a national “taxpayer revolt” seeking to limit government spending growth and lower taxes at the state and local level.<sup>iv</sup> The Headlee Amendment introduced a significant cap on governmental revenue growth:

1. Voter approval was now required to adopt any new property taxes and to increase the rate of existing taxes above what was authorized in 1978.
2. Property tax revenue for a whole jurisdiction (city, township, village, county) was limited to the rate of inflation. If revenue grows by more than the rate of inflation (not including revenue from new construction), local governments were now forced to rollback the maximum property tax rate.
3. The amendment required the state to pay at least the same proportion of costs for services required of local governments as it did in 1978 and required the state to fund any new services it mandated local governments to provide.

## Proposal A

As property tax burdens continued to increase, multiple proposals for reform were offered, finally resulting in the approval of Proposal A of 1994 almost 20 years after the Headlee Amendment. These reforms linked efforts to provide fairer funding to school districts across the state to property tax relief for voters. Of particular relevance, Proposal A brought about another significant change in property taxes:

1. Mostly eliminated local property taxes for school operations, replacing them with a 6-mill State Education Tax.
2. Introduced taxable value as the basis for taxing property and limited the growth in taxable value for any individual property to 5% or the rate of inflation, whichever was less. Taxable value resets to state equalized value (roughly 50% of true cash value) when a property is sold or transferred, referred to as “uncapping” or the “pop-up.”

The result of Proposal A was a significant reduction in statewide millage rates, as the average millage rate for local governments decreased from 56.64 in 1993 to 38.19 in 1994. This reduction was one of the key objectives of the reform. Since then, rates have remained stable, increasing slightly from an average of 38.17 mills in 1994 to 42.21 mills in 2024 (See Figure 2). This change has also meant that when adjusted for inflation, local government property tax revenues have remained relatively stable (See Figure 3).

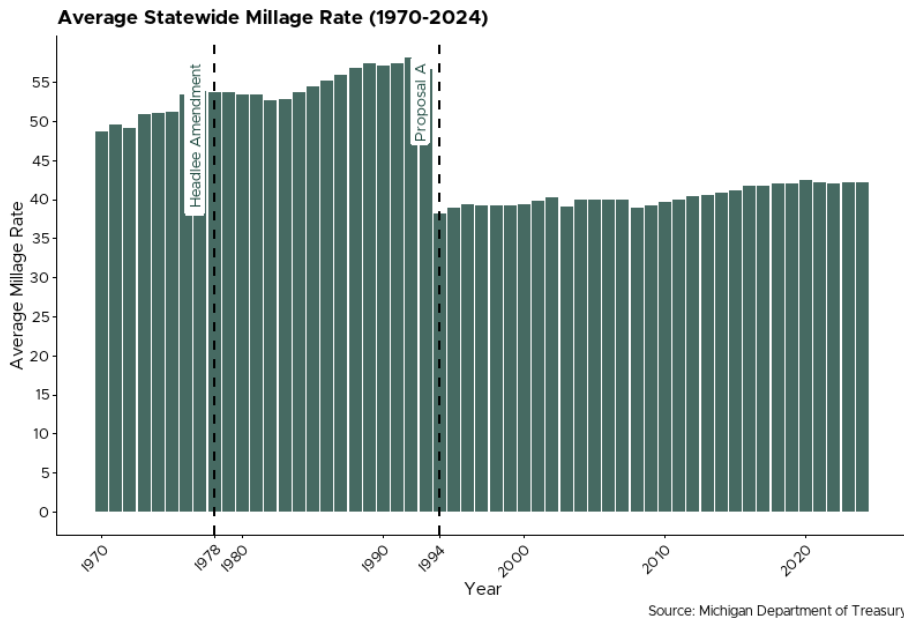
## ORIGINS OF THE PROPERTY TAX

The property tax hasn't always been structured the way it currently is, though it has been one of the primary sources of government revenue for most of Michigan's history. Since the enactment of the General Property Tax Act in 1893, the property tax system in Michigan has undergone significant changes.

- **1893** – General Property Tax Act enacted. With no state income or sales tax, property taxes funded almost all government services at the state and local level.
- **1933** – State sales tax was introduced, and state property tax was eliminated, making the property tax primarily a local government revenue source.
  - A 15-Mill property tax limitation was added to the State Constitution to limit future growth in property taxes. The Great Depression reduced asset values and local revenue, forcing local governments to begin relying on state government financial support.
  - This 15-mill limit was the first major structural limitation on property taxes, and the beginning of a trend of limitations in response to economic pressures.
- **1946** – A constitutional amendment introduced “Sales Tax Diversion,” which required the State to share sales tax revenues with public schools and local governments.
- **1964** – The Michigan Constitution of 1963 went into effect, requiring 15% of revenue from a 4% sales tax to be distributed to cities, villages, and townships. Though the sales tax was later increased to 6%, Constitutional Revenue Sharing is still calculated as 15% of the first 4% of the sales tax.

The 1946 and 1964 changes increased local government dependence on state revenues.

Figure 2: Average Statewide Millage Rate, 1970-2024



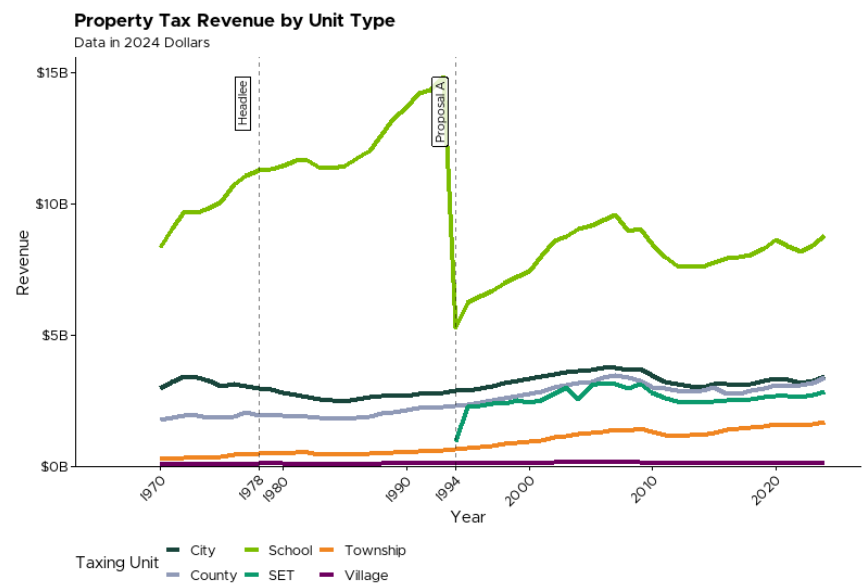
### Personal Property Tax Reforms

Michigan began phasing out personal property taxes in 2012, which were taxes on business property that is not land or buildings, and includes things like equipment, furniture, machinery, and more.<sup>v</sup> Voters approved a reimbursement mechanism for local units impacted in 2014, but reimbursements are calculated relative to 2013 taxable values, and do not necessarily match the actual revenue governments would have collected each year. As a result, while the reform reduced tax burdens, it further constrained local tax base.

### Overlapping Taxing Units

Another result of Michigan’s restrictions on local revenue sources is that there are multiple independent taxing units that are forced to rely on property tax millages for core funding. In addition to school districts and general service local governments (counties, cities, townships, villages), intermediate school districts, community colleges, regional authorities, and special assessment districts also levy millages. The boundaries of these units often overlap with multiple local

Figure 3: Total Property Tax Revenue by Governmental Unit



governments, meaning taxpayers feel the burden of various overlapping taxing units. In some cases this can lead to high millage rates for property owners in areas with many overlapping units levying millages.

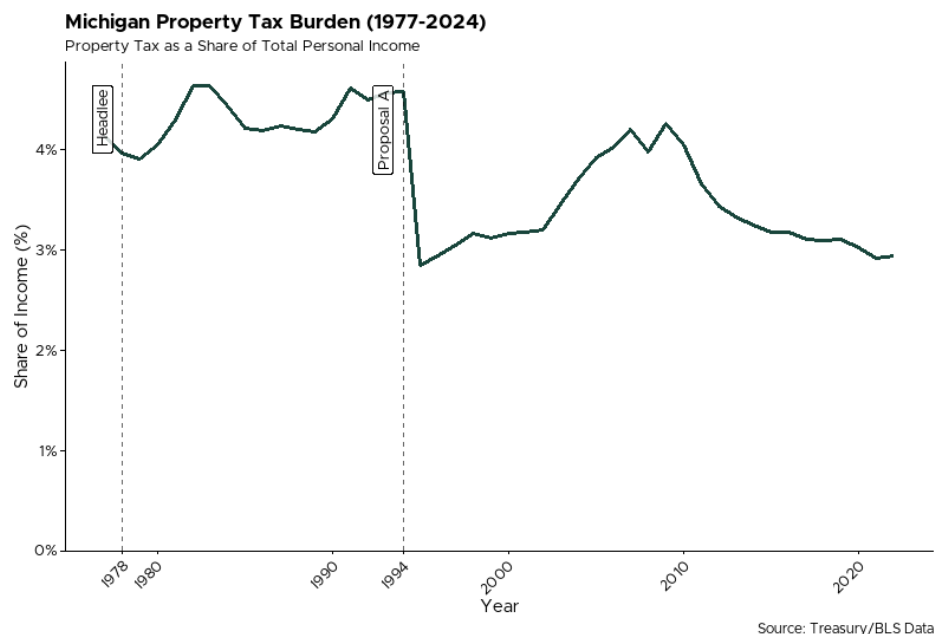
From a taxpayer perspective, property taxes are consolidated into one property tax bill, regardless of which unit levies the tax, which could create confusion or the assumption that the unit responsible for tax collection is levying higher taxes than they are. While these millages are mostly small, the result of these multiple units is that many voters are presented with one or more millage questions in nearly every election. Even for voters not facing significant growth in property tax burden this might create voter fatigue or increase the sense of burden, especially combined with overall increases in housing and cost of living.

## EFFECTS OF REFORM AND CHALLENGES IN THE CURRENT SYSTEM

From the perspective of limiting the burden on property owners, the Headlee Amendment and Proposal A have been fairly successful. The property tax continues to be a vital source of revenue for local units and schools, but millage rates across the state have not increased substantially since 1994, and property taxes as a share of personal income have actually decreased slightly in recent years (See Figure 4)

For local governments, the limitations on other sources of revenue combined with limits on property tax revenue growth have meant increased fiscal stress as local units attempt to deal with emerging issues and new state mandates. While state aid is a significant source of revenue for local units, it is determined annually and subject to legislative priorities and policy shifts, making it less predictable and less aligned with long-term service obligations than own-source revenue like property taxes. Increased reliance on state aid hurts the structural balance of local government budgets by adding uncertainty. Meanwhile, as the cost of providing services increases, local units struggle to find new revenue sources and are forced to turn to property tax millages.

Figure 4: Property Tax as a Share of Personal Income, 1978-2024





Michigan's current property tax system reflects decades of reforms designed to limit taxpayer burden, which has constrained local revenue growth even as service responsibilities and costs rise. With limited revenue options, local governments and school districts depend heavily on property taxes. At the same time, residents face rising housing and living expenses, making millage requests feel more burdensome, especially for new homeowners who experience significantly higher tax burdens than long-time property owners due to the uncapping of taxable value at sale. Together, these dynamics create a system where local revenue needs continue to grow, but their main revenue tool is increasingly constrained and politically unpopular.

## ENDNOTES

- <sup>i</sup> Erhardt, 2025.
- <sup>ii</sup> State Revenue in Figure 1 includes revenue sharing and state-funded grants.
- <sup>iii</sup> Zin, 2018.
- <sup>iv</sup> Citizens Research Council, 2025.
- <sup>v</sup> Rashid and Lentine, 2013; Zin 2018.

## REFERENCES

- Citizens Research Council, *Outline of the Michigan Tax System* (2025), [https://crcmich.org/PUBLICAT/2020s/2025/TaxOutline\\_2025.pdf](https://crcmich.org/PUBLICAT/2020s/2025/TaxOutline_2025.pdf).
- Jessica Erhardt, *2025 Ad Valorem Property Tax Report* (Michigan Department of Treasury, 2025), <https://www.michigan.gov/taxes/property/reports/ad-valorem-property-tax-levy-reports>.
- Carl Rashid, Jr. and William C. Lentine, "Personal Property Tax Reform," *Michigan Lawyer*, Fall 2013, <https://www.dykema.com/a/web/4cnZbpGybDLUqghAwXZ1u4/fall13%203.pdf>.
- David Zin, *Personal Property Tax Reform: A Continuing Story*, Topics of Legislative Interest (Michigan Senate Fiscal Agency, 2018), <https://sfa.senate.michigan.gov/Publications/Notes/2018Notes/NotesSum18dz.pdf>.

## RELATED READING

- [CRC – Michigan's Overlapping Property Tax Limitations](#)
- [CRC – Local Option Taxes](#)
- [CRC – Property Tax Burden Over Time](#)
- [CRC – Sustainable Funding for Local Governments](#)
- [Tax Foundation – 2025 State Tax Data: Facts & Figures Interactive](#)
- [House Fiscal – Headlee and Rollbacks](#)
- [House Fiscal – Property Tax Millage Limitations](#)
- [Beyond State Takeovers – MSUE White Paper](#)

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