



PROPERTY TAX IN MICHIGAN

PRINCIPLES OF GOOD TAX REFORM

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Over time, Michigan and other states review their tax systems and sometimes propose major tax reform. When reforms are being considered, it is useful to review the guiding principles of good tax systems to understand the impacts of reforms. The questions and answers below summarize these guiding principles that may be useful to both citizens and policymakers in designing and assessing proposed tax reforms.

WHICH LEVELS OF GOVERNMENT CHARGE WHICH TAXES?

State laws authorize state and local government officials to impose a mix of different types of taxes. Each state has significant autonomy in setting tax policy, and thus each state offers a different mix in their use of taxes. Table 1 below offers a summary of taxing authority in Michigan.

Table 1: Summary of Taxing Authority in Michigan

Government Level	Taxes Governments Can Levy
State	Income tax, corporate income tax, sales/use taxes, business privilege taxes
County	Property tax millages, 911 charge (business privilege tax)
City	Local income tax (24 cities), property tax millages, Detroit casino tax, special assessments
Township	Property tax millages, special assessments (no income tax)
School District	Property tax millages (operating, debt, enhancement)
Special Districts	Property tax millages or assessments for specific services

Sources: Citizens Research Council of Michigan (2025), Symmetry Software (2025), LegalClarity (2025), The Legal Guide (2026)¹

In Michigan, local governments are not authorized to impose a local sales tax, and the ability to impose local income taxes is also restricted, though cities may impose income taxes with voter approval. Any proposed changes to a given tax system must comply with existing laws, or such laws must first be changed. For example, any proposal that included a local property tax reduction coupled with an increase in local sales tax would first require a major change in tax law. Importantly, some changes to the property tax system would require voter approval.

WHICH LEVELS OF GOVERNMENT PROVIDE WHICH SERVICES?

It is also useful to review a summary of which levels of government provide different types of public services. If tax reform reduces (increases) revenue, then there must also be a corresponding reduction (increase) in public spending, or increase (reduction) in another source of revenue. Thus, tax changes at a given level of government must be coupled with appropriate changes to public services. Table 2 below summarizes the distribution of public service responsibilities across levels of government in Michigan. Some services may be mandated by the Michigan constitution, state statute, city charter, or contractual agreements, while other services are discretionary.

Table 2: Summary of Public Service Responsibilities

Level of Government	Typical Public Service Responsibilities
State	Highways, State Police, Medicaid, environmental regulation, prisons, courts, licensing, emergency management, intergovernmental transfers to local governments
County	Sheriff, jails, courts, public health, road commissions, elections, social services, land records
Cities/Villages	Police, fire/EMS, local roads, water/sewer, zoning, trash pickup, parks, code enforcement
Townships	Tax administration, elections, cemeteries; optional services like police/fire, zoning, utilities
Special Districts	Schools, transit, drainage, libraries, fire authorities

Sources: *Michigan Municipal League (2024)*, *Michigan Townships Association (n.d.)*, *State Regs Today (2024)*, *Wikipedia (n.d.)*ⁱⁱ

WHAT ARE SOME USEFUL PRINCIPLES THAT MAY HELP GUIDE TAX REFORM DECISIONS?

Public finance economists, accountants, and policy experts have long established core principles of a good tax system.ⁱⁱⁱ Below, we offer a summary of these principles within the context of tax reform.

Equity

Tax reform should take into consideration fairness of the tax burden. Each person has a different belief about what is “fair”, and many debates have emerged about fairness. With this caveat, there are two general principles regarding fairness:

- **Horizontal equity:** People in similar economic situations should pay similar taxes.

- **Vertical equity:** Those with greater ability to pay (higher income or wealth) should contribute more, often implemented through progressive taxation. For example, in Michigan the property tax violates both horizontal and vertical equity due to Proposal A. Adopted in 1994, Proposal A introduced a property tax assessment growth cap where the cap restricts the growth in the taxable value of property to the inflation rate or five percent (whichever is less) but only for those who maintain continuous ownership of their property. Once a property is sold the taxable value of a property is adjusted upward to reflect true market value. Therefore, a long-time homeowner typically pays significantly lower taxes than a new homeowner for homes of equivalent market value.^{iv} The cap also discourages long-time homeowners from selling their property, which distorts the housing market,^v leading to inefficiency, as described in the next section.

Efficiency

Tax reform should help minimize distortions in economic behavior. When possible, people may change their behavior to minimize tax payments.

- Taxes inevitably change incentives, but a good system seeks to minimize harmful changes in economic activities such as work, saving, investment, or consumption.
- Reform that broadens tax bases while reducing rates generally reduces potential distortions.

For example, while many states primarily tax goods, there is a growing shift towards taxing a broader range of services. A narrower tax base (goods taxation only) requires a higher tax rate to generate an equivalent amount of revenue as compared to taxing a broader array of both goods and services. This higher tax rate on a limited set of goods creates an incentive to alter consumption patterns, creating a distortion.^{vi} A movement toward taxing a broader set of goods and services but at a lower rate reduces these potential distortions, thus improving efficiency.

Simplicity and Transparency

The tax reform can help to make the tax system easier to understand and for governments to administer. There should be:

- Clarity of the rules in order to reduce compliance costs.
- Simplified structures to reduce opportunities for evasion and avoidance.

Citizens should be able to understand how taxes are assessed, collected, and spent.

- Improving transparency helps to increase public trust and reduce perceptions of unfairness.
- Increasing the visibility of tax burden may improve accountability.

Flexibility

Good tax reform increases adaptability to changing economic conditions. Reforms aimed at increasing flexibility:

- Allow governments to respond to recessions, demographic shifts, technological changes, or globalization.
- Enable a range of tax options by state and local authorities so they can implement taxes that are appropriate, given their economic make-up. For example, jurisdictions with high amenities and a strong tourism sector such as the Traverse City area might benefit from taxing services, while jurisdictions with large manufacturing and industrial employers like Walker may prefer to keep its existing mix of property and income taxes. This flexibility enables the state and local authorities to tax tourists who also utilize public services.

Potential Effects on Intergovernmental Relations

Depending on design, tax changes applying to one layer of government can have an impact on another layer of government. For example, tax reform applying to cities but not townships may generate incentives/disincentives for intergovernmental cooperation. Thoughtful tax reform will take into consideration potential impacts on intergovernmental cooperation/competition/relations.

Economic Vitality/Growth Compatibility

The tax and spending policy combination should be compatible with economic growth. For example, good tax reform can be designed to encourage investment, entrepreneurship, and strong labor market. Likewise, sufficient funding for critical public infrastructure can encourage economic growth.

ENDNOTES

- ¹ Citizens Research Council, 2025; Symmetry, 2025; LegalClarity, 2026; The Legal Guide, 2026.
- ¹ Michigan Townships Association, 2023; Michigan Municipal League, 2024; Kim, 2024; “Administrative Divisions of Michigan,” 2026.
- ¹ American Institute of CPAs, 2025.
- ¹ Skidmore et al., 2010.
- ¹ Hodge et al., 2015.
- ¹ Merriman and Skidmore, 2000.

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