

Uncapping Explained

1. What is Property Tax Uncapping?

Property tax uncapping occurs as a result of a change in ownership of a property. In Michigan, the *Taxable Value* can only increase by the lesser of inflation or 5%. When there is a transfer of ownership, the taxable value “uncaps” to equal the State Equalized Value. The *State Equalized Value* is assessed at 50% of market value and rises at a rate must faster than the Taxable Value. 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.

2. What Triggers Property Tax Uncapping in Michigan?

Property taxes are uncapped by a non-exempt **transfer of ownership**. Michigan defines a “**transfer of ownership**” as the “conveyance of title to or a present interest in property, including the beneficial use of the property, the 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, transfers due to intestate succession. After the transfer of ownership is executed, the taxes for that property will be uncapped.

3. The Mechanics of Property Tax Uncapping in Michigan

Property taxes are calculated using a formula that involves three key components: *assessed value*, *taxable value*, and the *millage rate*. Understanding the different applications of these values is crucial, especially considering the financial implications of property tax uncapping.

- **Assessed Value (AV):** based on the property's market value or worth. This value is 50% of true cash value. Assessed value may increase or decrease depending on the market. Assessed value does NOT impact taxes until an uncapping event.
- **Taxable Value (TV):** the lesser of the Assessed Value or the Capped Value. The Capped Value is the Taxable Value from the previous year adjusted for any additions or losses and multiplied by the inflation rate. Michigan law limits the annual increase in Taxable Value to either 5% or the rate of inflation, whichever is less.
- **State Equalized Value (SEV):** determined by the local assessor and is meant to represent approximately 50% of the property's market value. The SEV is the final assessed value after equalization.
- **Millage Rate:** rate set to fund public schools and services, which are assessed per \$1,000 of a property's taxable value.

It's crucial for property owners to be aware of these values, especially during real estate transactions, as the uncapping of property taxes can significantly impact the overall cost of property ownership. Engaging with real estate professionals and tax advisors is advisable to navigate these complexities and make informed decisions.