

City Council Presentation Land Value Tax Proposal

*Office of the Chief Financial Officer,
October 10, 2023*



TAKE PART
Opportunity Rising



High property taxes reduce property value

This **Detroit** home pays:

Property tax: \$2,550

Sale value: **\$75,000**

If it paid a tax rate like:

Royal Oak

Property tax: \$1,845

Sale value: **\$89,000 (+19%)**

Grand Rapids

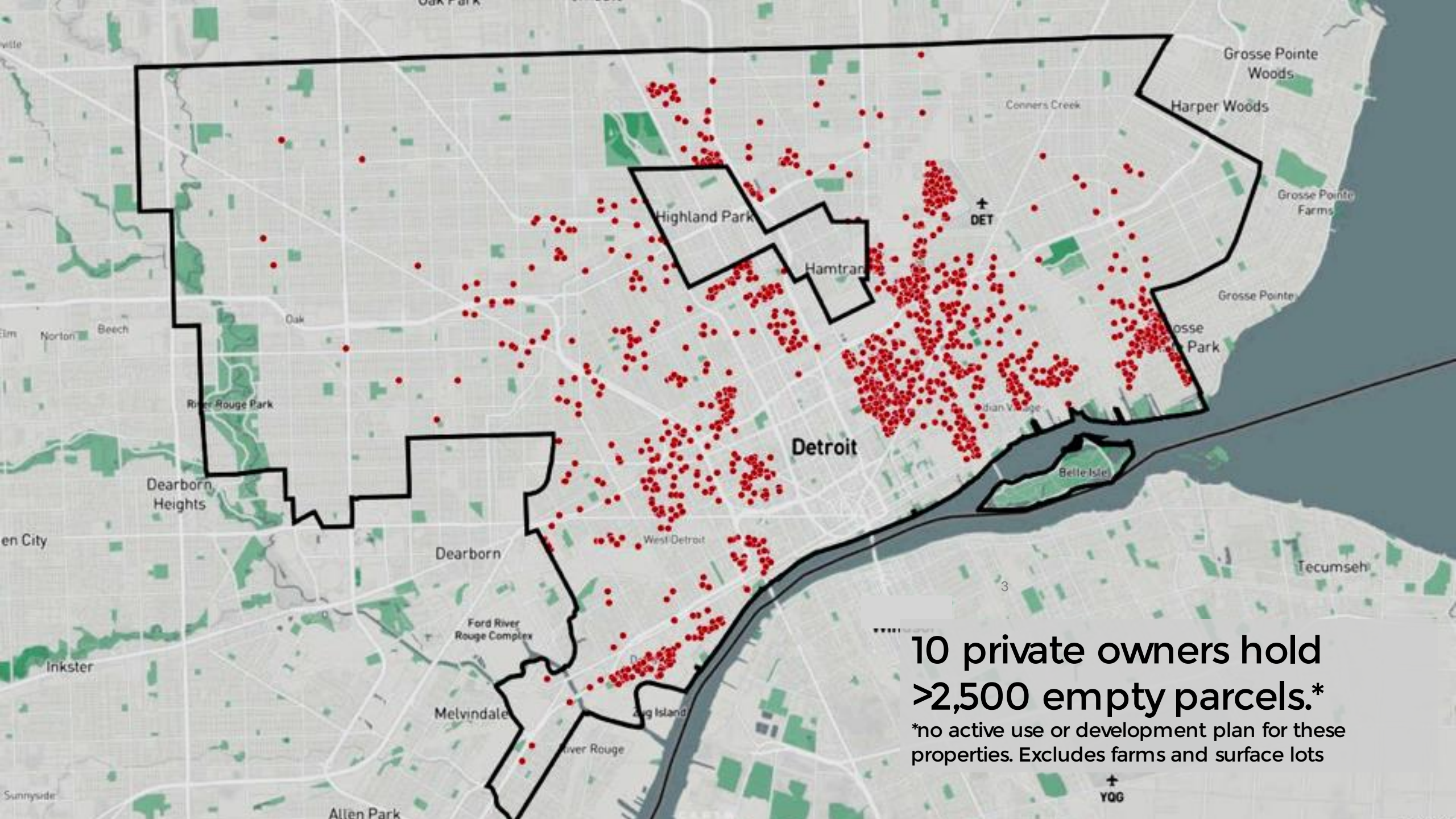
Property tax: \$1,615

Sale value: **\$95,000 (+27%)**

Estimated values for identical monthly principal, interest, and taxes for homebuyer under different tax rates.
Public services, amenities, and appraisal methods also affect home value.



Excess taxes hold back upkeep, wealth formation, and new investments.



**10 private owners hold
>2,500 empty parcels.***

*no active use or development plan for these properties. Excludes farms and surface lots

Objectives of the Land Value Tax

- **Provide equitable residential tax relief**
 - **Pennsylvania model used a split tax program without tax relief**
- **Incentivize capital investment and property repairs**
- **Increase home values**
- **Eliminate fiscal cliffs for homeowners and developers**
- **Disincentivizes blight and speculation**

Tax Exemption + LVT Replacement

Legislation lets voters in any Michigan community create

1

Universal Tax Exemption

Remove some local taxes on
all taxable real property

-14 mills



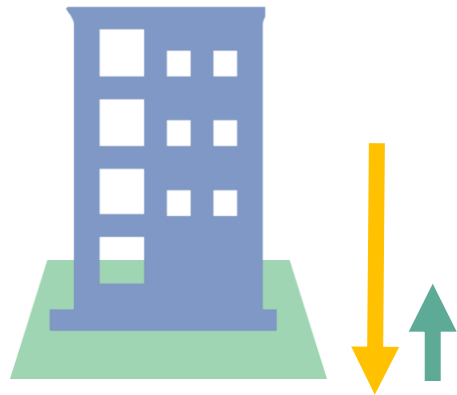
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Replacement Land Value Tax

Replace with new tax on the
taxable value of land





+118 mills

Lower taxes on use and development are
replaced by higher taxes on holding land



Homestead Example

A home with a Taxable Value of \$40,000 (\$39,000 Improvements + \$1,000 Land) would see the following impact:

Current Tax		Reformed Tax		
	Property Tax		Property Tax	
Imp. TV	\$39,000	Imp. TV	\$39,000	
Rate	× \$68 / \$1,000 TV	Rate	× \$54 / \$1,000 TV	
Bill	<u>\$2,652</u>	Bill	<u>\$2,106</u>	Savings on Improvements
				<u>-\$546</u>
	Property Tax		Property Tax	
Land TV	\$1,000	Land TV	\$1,000	
Rate	× \$68 / \$1,000 TV	LVT Rate	× \$118 + 54 / \$1,000 TV	Increase on Land
Bill	<u>\$68</u>	Bill	<u>\$172</u>	<u>+\$104</u>
				<u>-\$442</u>
Final Bill	<u><u>\$2,720</u></u>	Final Bill	<u><u>\$2,278</u></u>	
				- 17% (tax relief)
				Tax bill reduces from \$2,720 to \$2,278; a savings of \$442 or 17%

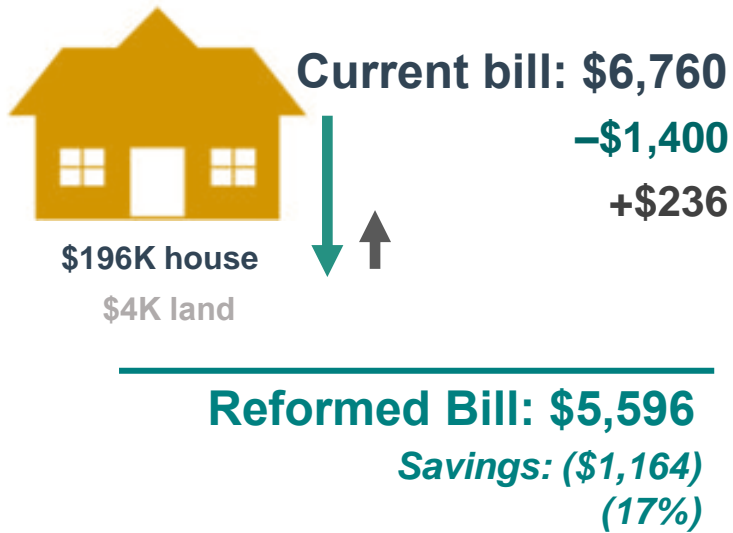
Note: Reformed Tax Rates are estimates and not final

Comparison to Peer Cities: Price of Entry

A \$200,000 home's tax bill decreases \$1,164 in this reform to \$5,596.

With reform, this home's tax bill is **17% lower** after purchase. Detroit's property taxes fall to the regional average.

97% of homeowners save on taxes; none see a tax increase.



Neighboring Cities	2022 Property Tax Rate	Median Tax Bill
1 River Rouge	76.5	7,650
2 Ecorse	73.2	7,320
3 Inkster	70.6	7,060
4 Highland Park	70.2	7,020
5 Harper Woods	69.4	6,940
6 Hazel Park	68.6	6,860
7 Detroit	67.6	6,760
8 Eastpointe	65.6	6,560
9 Melvindale	61.2	6,120
10 Allen Park	59.6	5,960
11 Southfield	57.5	5,750
12 Grosse Pointe Woods	55.6	5,560
13 Hamtramck	55.0	5,500
14 Grosse Pointe Park	53.5	5,350
15 Wyandotte	53.4	5,340
16 Warren	53.0	5,300
17 Dearborn Heights	52.9	5,290
18 Redford	52.6	5,260
19 Grosse Pointe	51.4	5,140
20 Grosse Pointe Farms	51.2	5,120
21 Dearborn	50.9	5,090

10 Largest Cities	2022 Property Tax Rate	Median Tax Bill
1 Detroit	67.6	6,760
2 Warren	53.0	5,300
3 Flint	53.3	5,330
4 Dearborn	50.9	5,090
5 Lansing	50.4	5,040
6 Ann Arbor	50.4	5,040
7 Sterling Heights	41.7	4,170
8 Livonia	40.8	4,080
9 Troy	35.2	3,520
10 Grand Rapids	35.1	3,510

\$5,596

\$5,596

1. [2022 Total Property Tax Rates in Michigan](#)
2. Using Detroit's 2024 Tax Rate (debt millage reduced by 1 mill)

Protection Credits

To protect taxpayers, the amount which a tax bill increases cannot:

1

Be more than
0%

Eligibility: All homesteads*

Parcels: 10,449

Homestead Credit

2

Be more than
20%

Eligibility: Land is < 60% of
total value

Parcels: 5,556

Improvement Credit

3

Portion of parking lot
required parking under
zoning

Parcels: 4,839

Zoned Parking Credit

**modeling estimate is not final*

Maximum credit per property: \$50,000

Revised Plan Calculation

Proposed legislation creates:

1

Universal Exemption

	Homestead	Non-Homestead
Bill per \$1000 of taxable value	\$67.6¹	\$85.6¹
– City Operating	-14.0	-14.0
<i>Exemption</i>	-14.0	-14.0
Reformed Levy	\$53.6	\$71.6
<i>per \$1000 of TV</i>		

+

2

Replacement Land Value Tax

LVT Calculation	
Exempt Mills	14.0 <i>/ \$1,000 of TV</i>
✘ Total Taxable Value ²	\$ 6,095 M
Total Tax Relief	\$ 85 M
+ Cost of Credits	\$ 8 M
÷ TV of Land ³	\$785 M
Total LVT	118.3 mills <i>/ \$1,000 of TV Land</i>

¹ Projected 2024 tax rate

² 2023 Values

³ TV of Land = SEV of Land * (Total Taxable Value / Total SEV)

Steps for Implementation

- **Adoption of Authorizing Legislation**
- **Request and Recommendation for Council Adoption of a Land Value Tax**
 - **Recommendation of Ad Valorem Mills to be converted to Land Value Tax authorized rate, the system of credits to be approved, and any phase in period**
- **Council Approval of Land Value Tax to place before voters**
- **November 5, 2024 election to approve Land Value Tax**
- **April 2025 – Council certifies levy of Land Value Tax and Ad Valorem millage for 2025 levies.**
- **In parallel, OCFO will prepare for implementation**
 - **Finalize Online Calculator to show Detroiters impact of tax reform**
 - **Work with State Tax Commission and BS&A (provider of assessment and tax software) to update software for LVT updates and other improvements**
 - **Quality checking throughout Fall in preparation for Tax Year 2025**

Components of the Ballot Proposal

- 1. The portion of ad valorem operating millage that will be converted to a Land Value Tax (LVT) and exempt from collection as an ad valorem tax.**
 - a) Agricultural Land is exempted via application**
- 2. The system of credits enabled by bill and approved by City Council:**
 - a) Homestead Credit: proposed no increase to homesteads (PREs); includes up to 4 side lots**
 - b) Improvement Credit: proposed cap at 20% increase if land constitutes less than 60% of total value (Maximum Credit: set at \$50,000 unless City Council and Mayor revise)**
 - c) Parking Credit: proposed credit to offset increase on zoning required parking**
- 3. Phase-in period of up to 3 years allowed by bill; not planned for Detroit proposal**

Implementation Timeline

