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New Law Allows for “Capping” Property Taxes

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February 2015

Ever since Proposal A passed in 1994, Michigan homeowners have known that the taxable value of their home could not increase more than 5 percent a year. Well, that is true so long as there was no “transfer of ownership.” The “cap” on taxable value increase is unlimited when there is a “transfer of ownership.”

Because many of our clients have real estate with a sizable gap between taxable value and market value, we regularly plan to delay “uncapping” the property taxes as long as possible as part of their estate planning.

You will be happy to know that there are many transfers that do not count as “transfers of ownership” and many exceptions to those that are a “transfer of ownership.” However, many times the steps needed to fall into these exceptions do not fit well with clients’ other estate planning goals.

There is great news on the horizon thanks to a new law. This new law will allow for keeping the property tax “capped” while at the same time accomplishing more (or all) of your estate planning goals. This is because the new law adds an exception to “uncapping” for real estate to stay in a trust or be distributed from a trust, so long as the trust beneficiaries or those receiving the distribution are closely related to the homeowner (e.g., children, parents, grandchildren, grandparents, and siblings). This is especially helpful to families with cottages and other “legacy” properties. Taking full advantage of this new law can lead to significant property tax savings over the years.

As with many laws, this new law has some potential land mines relating to use of the property. If you want to make sure that your estate plan takes full advantage of this new law and delays tax increases for your loved ones as long as allowed, please call us.