Why Property Taxes go up after Buying a Home

When looking to buy a new home, be sure to investigate property taxes before you buy. The real estate listing may estimate the current property taxes, but you need to go a step further to get the full tax implications. One common number that is overlooked is the SEV or State Equalized Value. Property taxes are based on the real estate's current Taxable Value, however the SEV is an important factor in determining future taxes once the property transfers to a new owner.

Property tax law requires that the Assessor annually estimate the market value of every property and record 50% of that as the State Equalized Value (SEV). The Assessor is also required to annually calculate the taxable value of each property by multiplying the previous year's taxable value by the C.P.I. (Consumer Price Index). The key to remember is that the SEV changes at the rate the real estate market changes but the taxable value can only change at the rate of inflation (or 5%, whichever is less). Over time, it is common for a gap to be created between the SEV and taxable values.

The year following the sale of a property, the taxable value resets back to the SEV which has no cap. This is called "uncapping" a property's taxable value. This process can cause a significant tax increase the following year after purchasing a home.

To get a rough estimate of what your taxes could be after the property uncaps, take 50% of the purchase price, multiply by the millage for that area and divide by 1,000.

Example: Purchase price is $150,000; millage rate is 38.000. Estimated future property taxes would be: $75,000 x 38 / 1,000 = $2,850

This information is intended to be used for illustrative purposes only. Estimates are not guaranteed and may differ based on each individual situation.

Information is based on Michigan State Law (P.A. 415 of 1994) and commonly referred to as "Proposal A".

If you have further questions, contact your local Assessing Department.