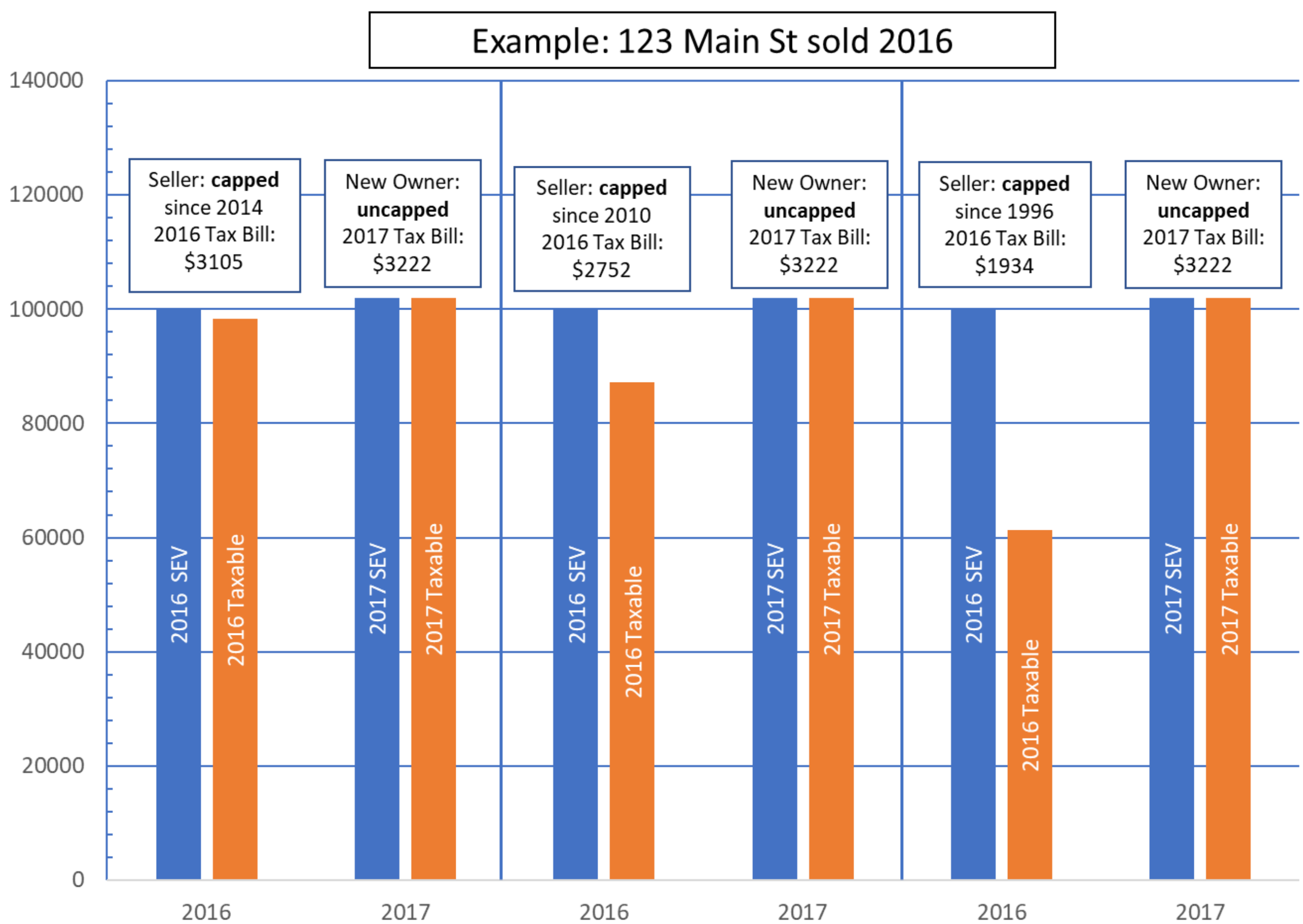
Uncapping Explained

During your home-buying process you may have heard, “Your taxes will go up the year after you buy the home, but not by much.” Sometimes that is the case but sometimes it is not.

The leading factor determining if and how much your property taxes will go up is the number of years the previous owner lived there. Here is why that matters:

- Michigan property owners have two values assigned to their home, SEV and Taxable.
- In Michigan, State Equalized Value (SEV) is required to represent 50% of market value. Market value is the price the house would usually sell for on the open market.
- In Michigan, Taxable Value can only increase at the rate of inflation or 5%, whichever is less.
- SEV must stay at 50% of market value and is not restrained by the 5% or rate of inflation rule. In a growing real estate market, SEV rises faster than the Taxable Value.
- The year following a transfer of ownership the taxable value “uncaps” and is reset under the new ownership to equal the SEV. It is then “capped” again and can only rise at the rate of inflation or 5% (whichever is less) each year until the next qualified transfer of ownership occurs.

Normally, the longer the previous owner lived there, the greater the difference between Taxable Value and State Equalized Value. When the home “uncaps” the year following a sale, the tax bill is usually higher than it was for the previous owner. If the previous owner has lived there since 1996 the “uncapping” will be a lot more significant than if the previous owner bought the home in 2014.



It is important to be aware of the upcoming change in taxable value following your home purchase. While setting up escrow accounts some mortgage companies do not consider the upcoming increase in taxable value. This can result in an under-funded escrow account when taxes are due.

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