

# CLIENT ALERTS

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## Detroit Mayor Duggan Announces Proposed Land Value Tax at Mackinac Policy Conference

### Client Alert

6.21.2023

As you may have already heard and read, Mayor Mike Duggan presented a plan to change the way real property is assessed for tax purposes to address inequities in the Detroit real property tax structure which Mayor Duggan argues renders residential home ownership and new construction non-competitive with surrounding suburbs, and incentivizes other residential and commercial property owners to not maintain (or underutilize) their property resulting in lower taxes. This is the case because the current tax structure is based largely upon valuation of structures and improvements. A dilapidated building has a lower value than one that is maintained. As stated in a Kresge Foundation Report from April, 2022 (see link below) “With the lowest property values of any large U.S. city and some of the highest property tax rates, Detroit is caught in a decades-long cycle of rising tax rates that still fail to generate enough revenue. In the absence of strong public services, high property taxes increase owner costs, reduce property values, and increase the costs of repair and redevelopment, creating a drag on economic recovery.”

The Kresge report goes on to state “Like many economically distressed cities, the city copes with this challenge by offering generous tax abatements for new development and for some homeowners. Abatements relieve excess costs and temporarily raise property values, but they can only be given to a small set of residents and new businesses. This leaves high—sometimes destabilizing—tax bills in place for long-term owners. While high taxes remain on most homes and businesses, inclusive and lasting incentives for reinvestment are absent.” As a result, to be competitive (and even economically feasible) with surrounding communities, Detroit developers are reliant upon a combination of extremely complex, time-consuming and costly layers of capital stacks, incentives and abatements. A split-value tax

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structure is intended to: 1. alleviate the need for such complexities and workarounds, 2. alleviate the inordinate tax burdens placed upon homeowners, and 3. accelerate commercial development and renovation.

**What is a Land Value Tax (split-rate) structure and how would it work?** A short summary of key recommendations and objectives as outlined in the Lincoln Institute of Land Policy Report (link copied below):

- Implement a split-rate property tax system, with a higher tax rate applied to land and a lower rate applied to structures and improvements.
- When choosing the split-rate ratio, consider taxing land at least five times the rate of structures and improvements (i.e., a 5:1 ratio). The land-to-structure ratio could be phased in over time.
- To ensure optimal implementation of a split-rate tax system, taxable land values must be measured accurately and reflect market values.
- For maximum effect, include all units of local government in the split-rate system implementation, to the extent allowable under Michigan law.
- Reevaluate commercial tax abatement underwriting.
- Reconsider the role of the NEZ Homestead program under a split-rate tax system. The Mayor proposed making the NEZs permanent in his Mackinac Policy Conference presentation.
- Inform lenders about the implications of changes to the tax system to increase visibility and accelerate market response.
- Use available land price indices or cost-approach methods to validate local sales data.
- Advance policies to reduce accrued delinquent taxes to speed the realization of benefits from a split-rate tax structure.

**Requirements and suggested timelines in the Mayor's presentation:** For the City of Detroit to adopt such a tax structure, the state legislature must pass legislation to allow for such a structure, which of course requires legislators to draft and sponsor the bill(s). The Mayor stated the Land Value Tax legislation would be drafted on an "opt-in" basis, so that individual taxing jurisdictions can evaluate and adopt as desired. Next, the city must place the proposed tax change on the ballot, consistent with the new legislations, for the voters to decide. The Mayor's stated objective is to get the legislation drafted and passed so that the proposal can appear on the February 2024 primary ballot for Detroit voters' approval.

**Desired objectives and resulting effects:** Lower residential taxes on par with surrounding suburbs, lower taxes outside of the Central Business District ("CBD"); more relief for high-rise CBD buildings, mid-relief for mid-rise and possible negative relief for low-rise CBD properties (an issue the Mayor recognized and said they would need to work out); removing complex capital stacks and a myriad of incentives and abatements required to make Detroit development even feasible; disincentivize holding blighted, underutilized and/or vacant properties; reducing an "overabundance" of scrap yards; reducing business retention of "excess" and "underutilized" land.

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**Next steps:** The Mayor also announced he would be engaging “Work Groups” made up of business and community representatives to provide input and feedback on the proposed plan and to address issues and identify potentially unanticipated consequences. Butzel will be monitoring the details on how, where and when these Work Groups will be constituted and provide updates when available. Butzel will also be seeking input and feedback from our Clients. Please feel free to contact our team that will be monitoring this closely – whether you are a resident, landlord, tenant, lender, developer, investor, conduct business in Detroit, or just a Michigan resident, we will all need to coordinate to find workable solutions. Butzel will continue to monitor and post updates as they become available.

**Additional Materials:** For those seeking to take a deeper dive, please see the links posted below, including the Mayor’s Mackinac Policy Conference presentation.

<https://www.detroitchamber.com/detroit-mayor-mike-duggan-announces-proposed-land-value-tax-designed-to-reward-neighborhood-homeowners-and-reduce-blight/>

<https://www.lincolnst.edu/publications/other/split-rate-property-taxation-in-detroit>

<https://www.bridgedetroit.com/why-a-legally-complicated-tax-change-could-benefit-detroiters/>

<https://kresge.org/news-views/tax-detroit-land-at-higher-rate-than-buildings-study-funded-by-kresge-says-it-can-reduce-homeowner-burden-boost-economy/>

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