LEGISLATIVE SNAPSHOT

PRINCIPAL RESIDENCE EXEMPTION

Date: January 2023 **Analyst: Alex Stegbauer**

Summary

The General Property Tax Act allows a taxpayer to claim a principal residence exemption (PRE) of up to 18 mills from the property taxes levied on their principal residence by their local school district for school operating purposes.

A "principal residence" is defined as the one place where an owner of the property has their true, fixed, and permanent home to which, whenever absent, they intend to return and that will continue as a principal residence until another principal residence is established. It also includes all of the owner's unoccupied property classified as residential or timber-cutover that is adjoining or contiguous to the applicable dwelling.

Background

The PRE was originally known as the "homestead exemption" and was created by 1994 PA 237. The bill was enacted after voters approved Proposal A, which substantially reformed Michigan's school financing system. Under Proposal A, there would be a 6-mill state property tax on all property and a local tax of 18 mills on property other than homesteads and agricultural property in most local school districts. 1994 PA 237 created the exemption as a mechanism to exempt homesteads and qualified agricultural property from the local tax. The exemption was renamed as the principal residence exemption by 2003 PA 140 to avoid confusion with the homestead property tax credit.

Claiming the Exemption

In order to claim a PRE, the taxpayer must file an affidavit with the local tax collecting unit (usually the township or city in which the residence is located) by June 1 for an exemption from that year's summer tax levy or by November 1 for an exemption from the winter tax levy. Exemptions remain in effect for all future years until they are rescinded by filing a form with the local assessor. A taxpayer who fails to rescind a PRE after they are no longer eligible may be subject to additional taxes, interest, and penalties.

Generally, taxpayers are able to claim a PRE on a property only while they occupy it as their principal residence. However, the act provides for certain exemptions, including:

- Allowing active-duty military personnel to maintain a PRE for up to three years.
- Allowing a taxpayer who is currently residing in a nursing home, assisted living facility, or certain other locations to maintain a PRE on their property if certain conditions are met.
- Allowing a taxpayer to maintain a PRE on their current principal residence and, for up to three years, a previously exempted property that is not occupied, is for sale, and meets certain other conditions.
- Allowing a taxpayer to maintain a PRE for up to three years on property they vacated due to damage or destruction as long as they meet certain conditions demonstrating their intent to move back in.

Denials and Appeal

Applications for a PRE are handled by the board of review in each local taxing unit. A taxpayer whose PRE claim is denied by the board of review may appeal the decision to the Small Claims Division of the Michigan Tax Tribunal within 35 days of the denial. If the tribunal reinstates a taxpayer's exemption, the taxpayer must be issued a refund for any non-principal taxes paid, including any interest or penalties, within 30 days.

After PRE claims are approved, they are no longer subject to review by the board of review but may still be subject to review by local units or counties. If during these audits an exemption is found to no longer be eligible, it may be denied for the current year and for any of the immediately preceding three years for which the property was ineligible. Such a denial may also be appealed to the Small Claims Division of the Michigan Tax Tribunal.

Additional Resources

- Michigan Department of Treasury, PRE Guidelines and PRE Forms
- Michigan Legislature, Michigan Taxpayer's Guide