

# **REDEVELOPING DETROIT CITY NEIGHBORHOODS THROUGH THE CREATION OF PROPERTY IMPROVEMENT TAX INCENTIVE ZONES**

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## **Introduction**

Economic development programs that target specific geographical locations are nothing new. In the City of Detroit, as in many other economically challenged cities, tax abatement programs attempt to stabilize disparaged areas. Renaissance Zones and Neighborhood Enterprise Zones provide financial incentives aimed at promoting economic and residential growth. However, it is difficult to assess how these incentives directly result in the improvement of a neighborhood, as opposed to merely providing cheaper housing to some city residents.

Many Detroit neighborhoods are in a transitional flux, where homes in good condition are in close proximity (or even next to) homes in disrepair, or homes that are severely blighted. In many neighborhoods, the single best tool for stabilization and development is simply the improvement of the occupied homes to induce people to purchase the abandoned ones. To that end, curb appeal can have a large impact on the perceived recovery in a community. By creating Property Improvement Tax Incentive Zones, either in combination with or separate from the current Renaissance Zones and Neighborhood Enterprise Zones, the city would have the ability to provide a direct property tax credit for improvements made to the exterior of a home or land on which it is situated. Rather than having to speculate, a property tax credit granted upon improvements made to homes will guarantee that tangible improvements will be seen in a neighborhood almost immediately.

## Michigan Renaissance Zones

The Michigan Public Act 376 of 1996, entitled the “Michigan Renaissance Zone Act”, has been enacted to:

“...foster economic opportunities in this state; to facilitate economic development; to stimulate industrial, commercial, and residential improvements; to prevent physical and infrastructure deterioration of geographic areas in this state; to authorize expenditures; to provide exemptions and credits from certain taxes; to create certain obligations of this state and local governmental units; to require disclosure of certain transactions and gifts; to provide for appropriations; and to prescribe the powers and duties of certain state and local departments, agencies, and officials.”<sup>1</sup>

Michigan Renaissance Zones are regions within the state of Michigan that offer businesses and residents significant tax discounts for residing in a specific sector. Geographically bound, these tax abatement sectors can be found in both urban and rural areas around the state.<sup>2</sup> The common thread within each zone is significant economic deprivation.<sup>3</sup> For property considered less than optimal, the designation has been viewed as a necessity for development.

For businesses or residents of Renaissance Zones in Detroit, the following state and local taxes are waived:

- Michigan Single Business Tax;<sup>4</sup>
- Michigan Personal Income Tax;<sup>5</sup>

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<sup>1</sup> PLANNING, HOUSING, AND ZONING—RENAISSANCE ZONE ACT—CREATION, 1996 Mich. Legis. Serv. P.A. 376 (S.B. 668).

<sup>2</sup> Mich. Comp. Laws. Ann. § 125.2688.

<sup>3</sup> Mich. Comp. Laws. Ann. § 125.2687.

<sup>4</sup> Mich. Comp. Laws. Ann. § 125.2689.

<sup>5</sup> *id.*

- Michigan State Education Tax;<sup>6</sup>
- Local Real and Personal Property Tax;<sup>7</sup>
- Local Income Tax;<sup>8</sup> and
- Utility Users Tax.<sup>9</sup>

The clear purpose of the program is to create long-term economic development within the enacted lifecycle - a period not to exceed 15 years per zone<sup>10</sup> - by attracting people to relocate their businesses and residences to tax-free properties. Whether or not the program has lived up to its original purpose is hard to determine.

Currently, the program is being phased-out. The phase-out happens in 25% increments beginning the last three years of the zone designation. Michigan is no longer making new zones available and all but one zone still in effect will cease at the end of 2017.<sup>11</sup>

### **Neighborhood Enterprise Zones**

The Michigan Public Act 147 of 1992, entitled the “Neighborhood Enterprise Zone Act”, has been enacted to:

“...provide for the development and rehabilitation of residential housing; to provide for the creation of neighborhood enterprise zones; to provide for obtaining neighborhood enterprise zone certificates for a period of time and to prescribe the contents of the certificates; to provide for the exemption of certain taxes; to provide for the levy and collection of a specific tax on the owner of

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<sup>6</sup> Mich. Comp. Laws. Ann. § 125.2689.

<sup>7</sup> id.

<sup>8</sup> id.

<sup>9</sup> id.

<sup>10</sup> Mich. Comp. Laws. Ann. §125.2684.

<sup>11</sup> Renaissance Zones, Detroit Economic Growth Corporation (April 2011) available at: <http://www.degc.org/data/uploads/RZ%202011.pdf>

certain facilities; and to prescribe the powers and duties of certain officers of the state and local governmental units.”<sup>12</sup>

Neighborhood Enterprise Zones are geographically determined tax abatement zones that offer two basic avenues for tax reduction in economically depressed areas. Tax reductions are offered in Neighborhood Enterprise Zones for new residential construction or for the rehabilitation of existing buildings.<sup>13</sup>

Neighborhood Enterprise Zone certificate holders are exempt from regular property taxes. Instead, a Neighborhood Enterprise Zone tax is applied.<sup>14</sup> The rate of tax reduction differs for each classification described in the paragraph above. Taxes paid on new construction are due at half the average State of Michigan tax rate, while the tax on rehabilitated property is applied against the pre-rehabilitated property value. Rehabilitated projects must cost at least \$3,000.00 in materials (if it is a DIY project). If enlisting a contractor, the cost must be at least \$5,000.00.<sup>15</sup>

All tax reductions last for the duration of the certificate sought by the taxpayer and awarded by the City Assessors Office.<sup>16</sup> Zones may remain in effect for a period up to 12 years.<sup>17</sup> The law asserts a phase-out provision that reduces the abatement rate incrementally over the last three years of the active certificate until no further tax abatement is awarded.

### **Newly Proposed Property Improvement Tax Incentive Zones**

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<sup>12</sup> TAXATION—NEIGHBORHOOD ENTERPRISE ZONE ACT, 1992 Mich. Legis. Serv. P.A. 147 (S.B. 662).

<sup>13</sup> Mich. Comp. Laws. Ann. § 207.774.

<sup>14</sup> Mich. Comp. Laws. Ann. § 207.779.

<sup>15</sup> Mich. Comp. Laws. Ann. § 207.772.

<sup>16</sup> Mich. Comp. Laws. Ann. § 207.774.

<sup>17</sup> Mich. Comp. Laws. Ann § 207.782.

Properties located within a Renaissance Zone (be they industrial, commercial or residential) receive near total tax abatement based primarily on location.<sup>18</sup> In contrast, properties located within Neighborhood Enterprise Zones may receive tax deductions for either homesteading within the zone or for construction work done to the property, so long as it totals several thousand dollars.<sup>19</sup> In each instance the certification process is multifaceted. The Property Improvement Tax Incentive Zone proposed herein would in many ways be a bridge between these two well established economic development programs.

The proposed Property Improvement Tax Incentive Zone is a geographically-determined tax credit zone that offers homeowners a credit to be applied to their Detroit property taxes (and not to the various millages collected by the city) for improvements made to the exterior of their residences or to the property where the residence is situated. In essence, if a homeowner has a broken fence, a front step or walkway that needs repair, or if their residence could use a fresh coat of paint, the homeowner could reduce the amount they pay in Detroit property taxes to the extent of the improvement made, up to the total property tax liability without exceeding it.

This incentive would encourage residents to make home improvements that they may otherwise feel are unnecessary or too costly. Ultimately, increasing the curb appeal of the property and its taxable value will compensate for the initial decrease in property taxes collected by the city due to the tax credit.

Unlike the Renaissance Zone or Neighborhood Enterprise Zone initiatives, which usually extend their tax abatement for longer than a decade, Property Improvement Tax Incentive Zones could be enacted for far shorter periods. This would allow the city quickly to evaluate the success of the program in increasing neighborhood growth and sustainability, and/or would

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<sup>18</sup> Mich. Comp. Laws. Ann. § 125.2687.

<sup>19</sup> Mich. Comp. Laws. Ann. § 207.772.

enable the city to rezone neighborhoods in different locations depending on future population shifts. At the end of the zone phase-out, the neighborhood should have increased occupancy, and higher property values.

Determining where such zones should exist, and for what duration of time, may require further analysis. Weighing transitional neighborhoods experiencing a new influx of occupants against traditional neighborhoods with high occupancy surrounded by some level of blight that experience less population growth will likely determine the best location. However, defining Property Improvement Tax Incentive Zones and the neighborhoods that may partake in this proposed program is ultimately a task for Detroit City Council to take on.

### **Governmental Authority and Oversight**

For the past 20 years, the state of Michigan has provided steep tax abatements for its citizens in regions facing economic decline, in the hope that doing so would stimulate the economy at a local level. Collaboratively, the state of Michigan, Wayne County and the City of Detroit worked together to designate the public zones in blighted communities that could benefit most from tax breaks. From such collaboration, Renaissance Zones, Neighborhood Enterprise Zones and other economic incentive programs formed. In each instance, the structure of these tax abatement programs required at least three levels of governmental involvement and oversight.

Unlike the incentive programs of the past, Property Improvement Tax Incentive Zones are localized to Detroit, providing a credit for Detroit property taxes alone. This form of tax incentive requires only local governmental approval, implementation and monitoring. While collaboration between the Detroit City Council, the Mayor's Office, the Planning and Development Department and local community organizations like the Detroit Economic Growth

Corporation, is to be expected, ultimately Detroit City Council need only pass a resolution in support of the new program to enact it.<sup>20</sup> Further, the City of Detroit can take advantage of existing infrastructure to enforce and audit tax credits to be applied to its residents' tax payments.

Common sense would suggest that the easier it is for residents to apply for the tax credit, the higher the participation rate will be. The more confusing and burdensome the application process is, the more likely the program will be less effective and may create a barrier to neighborhood improvement. While the application process is for the Detroit City Council to determine, it makes sense to treat this credit as a dollar-for-dollar reduction in property taxes. Perhaps the standard should require no more than receipts from projects done to the exterior of a property, with a tally of the total amount spent subtracted from the property tax liability. Receipts showing signs of residential beautification would not result in a reimbursement of paid property taxes but rather a reduction for property taxes owed in accordance with any credit phase-out plan established by Detroit City Council.

### **Measuring the Success of Proposed Property Improvement Tax Incentive Zones**

Measuring the success of any governmental program can be a challenge because of the many variables at play. What is success? You know it when they see it. The success of the proposed Property Improvement Tax Incentive Zone program should be measured by the tangible change it would bring to a neighborhood.

Individuals who maintain well-groomed homes confer a benefit to themselves in the form of the enhanced enjoyment of their property. They also get to experience increased value in what is likely their largest asset and, hence, an increased future negotiating power should they choose to sell that asset later. Likewise, visible home improvements confer a benefit on neighbors in the

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<sup>20</sup> Detroit, Michigan Code of Ordinances, Art. IV § 4-114 (2016).

form of increased market values for their properties by association. In the end, the benefit is conferred on the city of Detroit in the form of higher taxable value and a broader tax base.

## **Conclusion**

Economic development programs have existed in the state of Michigan for decades. Renaissance Zone and Neighborhood Enterprise Zone programs are popular tax abatement programs that are in the process of phasing out in the city of Detroit. The extent of the impact they have had on the city is hard to calculate. Creating Property Improvement Tax Incentive Zones will provide currently missing incentives to beautify occupied homes in transitional neighborhoods - even if in small ways - to encourage people to purchase neighboring properties and increase the tax base of the city of Detroit.