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Abstract

Michigan homebuyers face large potential discontinuities in property tax obligations for purchases made around January 1 and May 1 under the state's application of acquisition-value based assessment limits and principal residence (homestead) exemptions, respectively. Consistent with incentives, roughly 3.7 percent of sales concluded in the first 10 business days of January are thus attributable to timing responses among the subset of properties listed by the largest 25 percent of firms by sales volume. Underlying this effect is a willingness to stretch the number of days between contract and closing dates by an average of 2 to 4 business days per $1000 of tax savings among transactions otherwise likely to conclude immediately prior to the end of the year. A small proportion of taxpayers—assisted by more experienced real estate brokers—hence appear to respond in a sophisticated manner to the timing incentives inherent to Michigan's assessment limit system when confronted with the possibility of near-immediate increases in taxable basis. Though specific to Michigan, these findings emphasize the importance of behavioral distortions around the types of tax discontinuities that are inherent to the implementation of most property tax and assessment system policies.

Keywords: timing notch, tax salience, assessment limit, homestead exemption, property taxation, real estate agency

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