Recreation homes, land use and taxes in the Great Lakes Region

The northern counties of Wisconsin, Minnesota and Michigan are destination regions for owners of recreation homes due to the abundant natural resources in the area. The region’s forests and lakes drive the development of recreation homes for those who seek the solitude of rural living and opportunities for outdoor recreational activities.

Whether a homeowner is a full- or part-time resident, land use and fiscal policies will have important implications. This fact sheet summarizes several features of relevant policies as they pertain to owners of recreation homes.

Zoning

Through zoning regulation, local government in all three states sets policies for land use. In the context of recreation homes, it is beneficial for owners to have some knowledge of zoning regulations that apply on and around the lake. For example, such standards determine whether a commercial use, such as a bar or resort, is permitted on the lake.

Beyond zoning, septic system installation, upkeep and inspection are governed by county sanitary ordinances. Storm water ordinances to protect water quality may (or may not) be in place. County and local government comprehensive plans are an excellent place to learn about the different ordinances and programs that exist to protect the lake environment and water quality.

In addition, state and local governments in varying degrees implement shoreland zoning and other environmental regulations. Such standards are designed to protect the health, safety, and welfare of the human population, as well as to protect lakes and rivers from pollution. For example, proper installation and maintenance of septic systems near bodies of water are very important to preserve water quality. While such regulations may entail additional property owner costs, they can also yield substantial benefits to lake communities as a whole, enhancing lake property values.

Regulations vary from state to state and community to community; it is important to have some understanding of them before purchasing a lake property. We offer an overview of several key shoreland zoning regulations for Wisconsin, Minnesota, and Michigan.
Wisconsin shoreland zoning
In Wisconsin, shoreland zoning requirements are adopted at the county level, but must reflect minimum state standards. Lot size requirements for lots with access to sewers are minimum average width of 65 feet and a minimum overall area of 10,000 square feet (one quarter acre). Lots without access to sewers that must have a septic system must have an average width of at least 100 feet, and a minimum area of 20,000 square feet (half acre). In addition, shoreland setbacks are defined as 75 feet from the ordinary high water mark to the nearest point on the principle structure. However, if there is an existing pattern of closer development, the setback may be reduced but to no less than 35 feet from ordinary high water mark. Exemptions exist for boathouses, gazebos, decks, fishing rafts, and pedestrian access structures. All structures within 75 feet of the ordinary high water mark cannot be taller than 35 feet. Lots are allowed to have more than 15% impervious surface, but no more than 30% impervious surfaces on portions of parcels within 300 feet of the ordinary high water mark.¹

Minnesota shoreland zoning
In Minnesota, state minimum shoreland standards differ depending on lake type; the three categories are natural environment, recreational development, and general development. Standards apply to all land within 1,000 feet of a lake. Lakes with access to municipal sewer services have less strict requirements than those without sewer access. Parcels on lakes that are designated as natural environment are required to have a minimum lot width and area of 125 feet and 40,000 square feet, respectively. The structure setback is 150 feet. However, if the lake does not have access to sewer services, lot size and square footage increase to 200 feet and 80,000 square feet, respectively. The minimum requirements for recreational development lakes with sewer access are a lot width of 75 feet, lot area of 20,000 square feet, and structure setback of 75 feet. In areas without access to sewers, the dimensions increase to 150 feet, 40,000 square feet, with a setback of 100 feet. General development lakes with sewer access have the least stringent of standards—a lot width of 75 feet, lot area of 15,000 square feet, and structure setback of 50 feet. For lakes without sewer access, lot width and area increases to 100 feet and 20,000 square feet, with a structure setback of 75 feet. In addition, for all lake categories there is an impact zone, which is the area immediately adjacent to the lake. Within impact zones, restrictions apply to the placement of structures, vegetation removal, and shoreland alterations that are critical to preserving water quality and wildlife habitat.²

Michigan shoreland zoning
In Michigan, it is more difficult to summarize shoreline regulations because local governments have substantial autonomy in such decisions. Counties, cities, villages, and townships have the authority to zone any shoreland as they wish within their jurisdiction. In fact, two different jurisdictions that share a lake may have two different sets of regulations.³ Regardless of the state, it is important for potential recreational home buyers to know about shoreland zoning regulations. Are appropriate regulations in place to ensure that water quality will be maintained over time? Such regulations may include requirements for septic installation, limitations on the use of fertilizer use, minimum lot sizes, or restrictions on vegetation removal. These regulations are designed to limit nutrient loading, preserving lake water health and clarity.

In addition, lake associations can play an important role in preserving lake water health and quality. They often pay for weed removal and engage property owners in educational activities in and around the lake. If you are considering joining a lake community, does it have a lake association? Lake associations often are membership or fee-based organizations that set lake use policies and provide services to those living around the lake.

¹ http://docs.legis.wisconsin.gov/code/admin_code/nr/100/115
² Source: www.dnr.state.mn.us/shorelandmgmt/guide/standards_tables.html
Property taxes

Property taxes are an important financial consideration when making any type of property purchase, and recreational home purchases are no exception. Tax features vary from state to state, but there are three main considerations in determining your property tax burden, both now and in the future:

1. Millage rate
2. Definition of the tax base
3. Amount property taxes are allowed to grow over time

The millage rate is the tax rate applied to the tax base when determining a particular property’s tax payment. The millage typically includes taxes paid to all overlying jurisdictions, which are in turn used to fund public services. Each state has its own guidelines about the maximum millage that can be charged, and each community will have a different overall tax rate depending on the size of the tax base and the services it chooses to provide. In addition to the typical local governments that levy a millage (city/township, county, school taxes), lake properties may also be required to pay a millage or fee to a lake management association. Such associations emerge to provide specific services to lake property owners, such as weed control. Finally, the millage applied to property may depend on its property classification.

In Wisconsin, the millage rate is the same for all property classes. However, in Michigan homestead property owners are exempt from paying the local school millage; seasonal homeowners do not qualify for this exemption. In Michigan, there is a substantial tax reduction associated with making a recreational home your primary residence. In contrast, non-homestead recreational homeowners in Minnesota are exempt from taxes imposed via referenda processes (for example, some local school taxes).

The tax base of any property tax is related in some way to the value of the property. In Wisconsin, the tax base is defined as the market value of the property. In Minnesota, the value standard for determining the tax base is also market value. However, the tax base is equal to 1% of market value for the first $500,000 of value and 1.25% of market value for value above $500,000.

In Michigan, the definition of the tax base is even more complicated. The tax base begins with state equalized value, which is equal to one half of market value. Upon the purchase of a property, the tax base is set at state equalized value. However, in subsequent years the tax base is determined by taxable value, where taxable value growth is determined by the rate of inflation as measured by the consumer price index. This cap on taxable value growth means that, as long as one retains ownership of the property, the property tax payment will only grow by the rate of inflation. While this policy ensures that a property owner is not faced with ever-increasing tax payments resulting from ballooning lake property value growth, new lake property owners can bear a much higher tax burden relative to long-time lake property owners. A potential new lake property owner should not use the tax payments of neighboring properties or even the tax payment of the property under consideration as a basis for determining the tax payment. Rather, to determine the estimated tax payment, potential buyers should multiply the appropriate millage (or tax rate) by the property’s state equalized value.

All three states have revenue growth limits on local governments that provide some protection against rising property tax payments. However, if lake property values grow faster than other properties, in Minnesota and Wisconsin one could still face substantial increases in property tax payments. In Michigan, the taxable value cap ensures that property taxes will grow by no more than the rate of inflation, regardless of how much lake property values are increasing. In Michigan, one will likely pay higher taxes initially, but the taxes are capped at the rate of inflation.

Overall, property tax policies are quite different across the three states. The table provides a summary of average property tax payments as a percentage of property value in the three states. By this measure, Minnesota has the most favorable overall property tax environment.

Summary

Land use regulations and property taxation play a critical role in the lives of all property owners, and recreational homeowners are no exception. This fact sheet provides an outline of the basic zoning and property tax policies for Wisconsin, Minnesota, and Michigan. It also provides links to additional resources for potential recreational homeowners.

Property taxes as a percentage of property value

<table>
<thead>
<tr>
<th>State</th>
<th>Percentage of property value</th>
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<tbody>
<tr>
<td>Michigan</td>
<td>1.62%</td>
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<tr>
<td>Minnesota</td>
<td>1.05%</td>
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<tr>
<td>Wisconsin</td>
<td>1.76%</td>
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Source: www.tax-rates.org/michigan/property-tax

Additional resources

For more information about shoreland zoning requirements in the Great Lakes region, visit each state’s Department of Natural Resources website.

MI: www.michigan.gov/dnr

MN: www.dnr.state.mn.us/index.html

WI: http://dnr.wi.gov

The Lincoln Institute of Land Policy provides detailed information on property tax policies for all states.


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