

## Michigan Court of Appeals: Full Principal Residence Tax Exemption Available to Homeowners Renting Portion of Property Short-Term

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If a Michigan property owner rents part of his or her home, can the property owner still claim 100% principal residence tax exemption (PRE) on the home? Yes, declared the Michigan Court of Appeals in **Keith W. DeForge v Township of Allouez**, decided May 26, 2022. The *DeForge* court held that the renting of rooms in the taxpayer's home on Lake Superior did not prevent the taxpayer from obtaining a 100% PRE. The PRE grants an exemption for a principal residence from Michigan's school operating taxes, which can be as much as 50% of the total tax rate.

The taxpayer rented three rooms in his home through Airbnb, which constituted 30% of the property, and the lower court (the Michigan Tax Tribunal), therefore, granted a 70% PRE exemption. The Tribunal based its conclusion on MCL 211.7cc(16), which states that if the principal residence is part of a unit in a multiple-unit dwelling or a dwelling unit in a multiple-purpose structure, the exemption is limited to only that portion of the total taxable value of the property used as the principal residence of that owner. Mr. DeForge appealed that decision.

The Court of Appeals concluded that renting a portion of a home does not render it a "multiple-purpose" structure, and distinguished that fact pattern from examples such as where a property has a storefront on the ground level and a residence above. The court found that the "purpose" of the entire property was not changed by the portion used for rentals because allowing transient guests to stay in one's home is not a sufficiently distinct purpose.

The appellate court also referenced an earlier decision, *Rentschler v Melrose Twp*, 322 Mich App 113 (2017), which had found that a taxpayer's renting of their entire home more than 14 days a year but less than 50% of the time did not disqualify them for a 100% PRE, and concluded that "[if] completely renting out a principal residence for a portion of the year does not disqualify it from the PRE, we cannot conclude that renting out a portion of the property for a portion of the year would disqualify the owner from claiming the PRE."

**Why it matters** - Many property owners today generate extra income by renting either part or all of their homes through hosting sites such as Airbnb and VRBO. While the regulation and sales and accommodation tax treatment of those rentals in Michigan continues to evolve, this case at least clarifies that such rentals do not result in a proportionate reduction in Michigan's PRE.