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REAL ESTATE TRANSFER TAX EXEMPTION: CHURCHES

Senate Bill 923 (Substitute H-1) First Analysis (6-4-98)

Sponsor: Sen. Leon Stille
House Committee: Tax Policy
Senate Committee: Finance (discharged)

THE APPARENT PROBLEM:

One of the elements of the new school financing system introduced with the passage of Proposal A in 1994 is the State Real Estate Transfer Tax Act. This act levies a three-quarters of one percent tax on the transfer of real property from one party to another. (The rate is set at \$3.75 for each \$500 or fraction of \$500 of the total value of the property being transferred.) The liability for the tax is on the seller. Representatives of religious organizations have pointed out that they enjoy no exemption for their property under the act, unlike the exemptions they have for property under the General Property Tax. (Section 7s of the General Property Tax Act exempts houses of public worship, with the land they stand on, the furniture therein, and all rights in the pews, and any parsonage owned by a religious society and occupied as a parsonage. It also says that a house of public worship includes buildings or other facilities owned by a religious society and used predominantly for religious services or for teaching the religious truths and beliefs of the society.) House Bill 5358 of this legislative session proposed to amend the State Real Estate Transfer Tax Act to exempt sales of property by churches from the transfer tax. That bill was recently vetoed by the governor, who stated his objection to carving out a narrow special exemption from the transfer tax, thereby setting a precedent for other exemptions and eroding the tax base. Similar legislation has been introduced, this time limited to transactions between churches.

THE CONTENT OF THE BILL:

Senate Bill 923 would amend the State Real Estate Transfer Tax Act to exempt from the transfer tax the conveyance of an interest in property exempt from the collection of taxes under Section 7s of the General

Property Tax Act, if the conveyance is from one religious society to another. The bill is tie-barred to House Bill 4376, which would create a new act, the Michigan Religious Freedom Restoration Act.

MCL 207.526

FISCAL IMPLICATIONS:

The House Fiscal Agency estimates the revenue impact at \$500,000 to \$1 million. (6-3-98)

ARGUMENTS:

For:

Religious organizations typically are exempt from taxation when they are engaged in their traditional activities. They are exempt from the sales and use taxes, for example, and their property is exempt from property taxes. When the new state transfer tax on real estate transactions was enacted as part of Proposal A, however, no exemption was included for religious organizations. This means when churches sell property, they are subject to the tax. Representatives of religious organizations have suggested that this was an oversight and have recommended that the statute be amended. Often when churches sell property, the transaction involves other churches, so that the property in question is still exempt from the general property tax. Payment of the tax reduces revenues that the religious institution could use in carrying out its mission. This proposal is a narrower exemption involving only the transfer of property from one church to another; thus the revenue implications will be smaller and the possibility of setting a precedent that much less.

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POSITIONS:

The Department of Treasury supports the bill. (6-3-98)

The Michigan Catholic Conference submitted testimony in support of the bill. (5-22-98)

The Michigan Education Association indicated its opposition to the bill. (5-27-98)

Analyst: D. Martens

■This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.