House Legislative Analysis Section
Romney Building, 10th Floor
Lansing, Michigan 48909
Phone: 517/373-6466

HOMESTEAD CREDIT: RENTERS

House Bill 5287 (Substitute H-1)
First Analysis (6-16-98)

Sponsor: Rep. Nancy Quarles
Committee: Tax Policy

THE APPARENT PROBLEM:

Some taxpayers are able to claim a credit against their income taxes based on how much they pay in property taxes. The homestead property tax credit (or circuit breaker) offers homeowners and renters, generally speaking, a credit equal to 60 percent of the amount by which their property taxes exceed 3.5 percent of income. Certain taxpayers, such as senior citizens, certain disabled persons and veterans, can claim larger credits. The maximum credit is $1,200. The credit is phased out beginning at a certain income level so that households earning $82,650 or more are ineligible for the credit. Obviously, the circuit breaker makes the property tax more sensitive to a taxpayer's ability to pay. The amount of rent imputed as property taxes was increased from 17 percent to 20 percent as part of the legislative package accompanying the passage of Proposal A in March of 1994, which created a new school finance system and reduced local school operating property taxes substantially (while raising the sales tax). This assumes that a person paying $500 per month in rent is paying $100 per month, or $1,200 per year, in property taxes.

Currently, a number of new tax reduction proposals are under discussion, including a phased-in income tax rate reduction proposed by Governor Engler and an alternative package of income tax reductions proposed by House Democrats, including a larger personal exemption, among other things. One of the elements in the alternative package is a proposal to increase the homestead property tax credit available to eligible renters by raising from 20 percent to 23 percent the amount of rent that can be counted as property taxes paid.

THE CONTENT OF THE BILL:

The bill would amend the Income Tax Act to allow renters, in calculating the homestead property tax credit, to use 23 percent of annual rent paid as equivalent to property taxes paid rather than 20 percent of rent. This would apply to tax years after the 1997 tax year.

MCL 206.520

FISCAL IMPLICATIONS:

The Department of Treasury estimates the annual revenue reduction at $41.6 million. (6-15-98)

ARGUMENTS:

For:

The aim of the bill is to put renters on a more equal footing with homeowners as regards the homestead property tax credit. Remember that taxes on commercial property were not reduced as much under Proposal A as taxes on homesteads, so that even if tax reductions for landlords were passed on to tenants in the form of rent reductions or lower rent increases, renters would not receive the equivalent relief as homeowners. Rental property typically pays four times as much in school operating taxes as homestead property. This bill is part of a package of tax reductions aimed at providing relief to families with moderate incomes as an alternative to tax rate reduction proposals that would be geared toward more affluent families.

Response:

One could argue that all renters -- not just some -- would benefit from other kinds of income tax cuts, whether a cut in the rate or an increase in the personal exemption, and would benefit directly, without having to know about the homestead credit and file a special form. One drawback to the homestead property tax credit is that many eligible taxpayers, including many renters, do not claim it.

Against:

This bill will result in significant revenue loss. A number of recently enacted tax cuts will take effect in the 1998 tax year, many of them targeted. Until they have been absorbed, additional tax cuts should be delayed. Some people argue that no new tax cuts should be considered in the near future because of the effect they would have on the state's ability to provide public services. Others argue that when it is time for new tax cuts, early in the next century, they should be broad based. Remember that one element in the legislation accompanying Proposal A was an increase from 17 percent to 20 percent in the amount of rent that could be counted as property taxes in calculating the homestead property tax credit.

POSITIONS:

The Department of Treasury is opposed to the bill. (6-15-98)

Analyst: C. Couch

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