

**REAL ESTATE TRANSFER TAX:
EXEMPT RELIGIOUS SOCIETIES**

**House Bill 5358 (Substitute H-1)
First Analysis (12-4-97)**

**Sponsor: Rep. Kirk A. Profit
Committee: Tax Policy**

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.

THE CONTENT OF THE BILL:

The bill would amend the State Real Estate Transfer Tax Act to exempt the conveyance of an interest from a religious society in a house of worship exempt from the collection of taxes under Section 7s of the General Property Tax Act, or a parsonage.

MCL 207.526

BACKGROUND INFORMATION:

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. (MCL 211.7s)

FISCAL IMPLICATIONS:

The House Fiscal Agency estimates the revenue impact at \$1 million. (12-3-97)

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. But even when the transaction involves the sale of a parsonage or rectory, the tax reduces revenues that the religious institution could use in carrying out its mission. The treasurer of a church in Ypsilanti has said, in a letter to the bill's sponsor, that the recent sale of a parsonage resulted in a tax liability of \$1,560, reducing the church's ability to offer services to the community.

POSITIONS:

The Department of Treasury supports the bill. (12-3-97)

The Michigan Catholic Conference testified in support of the bill. (12-3-97)

The First United Methodist Church of Ypsilanti has indicated its support for the bill. (Letter dated 11-21-97)

Analyst: C. Couch

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