

Senate Fiscal Agency
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SFA**BILL ANALYSIS**

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House Bill 5358 (Substitute H-1 as reported without amendment)
Sponsor: Representative Kirk A. Profit
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 3-31-98

RATIONALE

The passage of Proposal A in 1994 revamped the State's school finance system. Among the many tax changes made was the creation of the State Real Estate Transfer Tax Act, which taxes the seller or grantor of property at the rate of three-fourths of 1% of the total value of the property transferred. Though the Act contains a list of property transfers that are exempt from the tax, there is no exemption for the conveyance of property from a religious entity. It has been pointed out that this lack of exemption is inconsistent with a general property tax exemption in the General Property Tax Act. Section 7s of that Act exempts from property taxes houses of public worship, the furniture in them, and the land on which they stand; any parsonage owned and occupied as a parsonage by a religious society of the State; and buildings or other facilities owned by a religious society and used predominantly for religious services or for teaching the society's religious truths and beliefs. It has been suggested that the property of religious organizations also should be exempted from the transfer tax.

CONTENT

The bill would amend the State Real Estate Transfer Tax Act to exempt from the real estate transfer tax the conveyance of an interest from a religious society in a house of public worship exempt from property taxation under Section 7s of the General Property Tax Act, or a parsonage.

MCL 207.526

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

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 State transfer tax on real estate transactions was enacted as part of Proposal A, however, no exemption was included for religious organizations; meaning that when a church, for instance, sells property, it is subject to the tax. This reduces revenues that the religious institution otherwise could use in carrying out its mission, and reduces the organization's ability to offer services to the community. Reportedly, the lack of an exemption from the transfer tax for religious organizations was an oversight, and many people feel that it would be proper to correct the problem. The bill would extend to religious organizations a tax exemption similar to the exemptions that those organizations enjoy under other tax statutes.

Legislative Analyst: G. Towne

FISCAL IMPACT

It is estimated that this bill would reduce the revenue generated by the State real estate transfer tax by less than \$1 million in FY 1998-99. The revenue from the State real estate transfer tax is earmarked to the School Aid Fund, so this loss in revenue would have an impact on the School Aid Fund.

Fiscal Analyst: J. Wortley

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