

Fiscal Analysis

PROPERTY TAX; EXEMPTION FOR RESIDENTAL ADDITIONS



Bill/Sponsor **HOUSE BILL 4649 (H-4) As Reported**, Rep. John G. Pappageorge

House Committee Tax Policy

Analysis

Summary

House Bill 4649 (H-4) would amend the General Property Tax Act to allow the governing body of a local tax collecting unit to provide an exemption for new additions and alterations to homestead property. The exemption would be in effect for no more than five years, or until the property is sold, whichever comes first.

Fiscal Impact

Because the exemption is subject to the approval of each individual local tax collecting unit (of which there are approximately 1,800 in the state), there is no way to know how widely the exemption will be applied.

Data from the US Census of Housing and the Bureau of Economic Analysis suggest that approximately \$2 billion of new construction on additions of existing homestead property occurs in Michigan each year. Using a statewide average tax rate on homestead property of 32.35 mills, if all of this new construction was exempted, property tax revenue would be reduced by about \$30 million below what it would have been without the exemption.

Although the majority of the foregone revenue would occur at the local level, State Education Tax revenue would be reduced by approximately \$5.5 million if all of the new construction on additions qualified for the exemption. In practice, however, the potential revenue loss is likely to be smaller.

Analyst(s)

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FLOOR ANALYSIS - 2/5/04

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