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BILL ANALYSIS

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Senate Bill 692 (as introduced 8-31-05)
Sponsor: Senator Nancy Cassis
Committee: Finance

Date Completed: 11-30-05

CONTENT

The bill would amend the General Property Tax Act to provide that, notwithstanding the official assessor's manual published by the State Tax Commission or any manual approved by the Commission to the contrary, an assessing official would have to depreciate personal property until the taxable value of the personal property assessed was not greater than 10% of that property's initial taxable value, unless the official assessor's manual or the manual approved by the Commission provided for a rate less than 10%.

Under the Act, all assessing officials who are responsible for assessing real or personal property on which property taxes are levied by any taxing unit of the State, must use only the official assessor's manual or any manual approved by the State Tax Commission, consistent with the official assessor's manual, as a guide in preparing assessments.

The Act also requires all assessing officials to maintain records relevant to the assessments, consistent with standards set forth in the assessor's manual published by the Commission.

Under the bill, these requirements would be subject to the provision described above.

MCL 211.10e Legislative Analyst: J.P. Finet

FISCAL IMPACT

The bill would reduce State and local property tax revenue and would increase School Aid Fund expenditures by an unknown and likely significant amount. The actual amount would depend upon the specific characteristics of the property affected by the bill, property replacement patterns of taxpayers, and how the bill would be implemented. While the bill would require residual values for property to decline to 10% unless a lower value already was specified, it does not include how to reach those values. For example, machinery and equipment depreciate from 89% of cost at one year of age to 28% of cost at 14 years of age, and 23% at 15 years. Under the bill, it is unclear if the property would immediately drop to 10% in the 16th year, or if it would continue a graduated decline until it reached 10% (or how rapid that decline would be). The bill would appear to offer individual assessing, officers the ability to chose the transition from the residual value stated in the assessors manual to the 10% required by the bill. The slower the transition, the lower the fiscal impact of the bill would be in the early years it was effective.

Based on the assumption that all property currently taxed at a residual value above 10% immediately would be depreciated to 10%, and that 10% of personal property is currently at the residual value, the bill would reduce State and local property taxes by approximately

$50 million to $60 million in 2006. If 15% of personal property is currently at residual values, the reduction would rise to approximately $75 million to $80 million in 2006. If the impact were $75.0 million, approximately $8.7 million would be reduced State education tax revenue to the School Aid Fund and $26.5 million would be reduced property tax revenue to counties, cities, villages, townships and other local units of government other than school districts. For the remaining $39.9 million of revenue reductions to school districts, School Aid Fund expenditures would be increased to replace these amounts and maintain per-pupil funding guarantees. As a result, the bill would reduce School Aid Fund revenue by $8.7 million and increase School Aid Fund expenditures by $39.9 million, a total impact of $48.5 million.

This analysis is preliminary and will be revised as new information becomes available.

Fiscal Analyst: David Zin