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BILL ANALYSIS

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House Bill 4440 (Substitute H-1 as passed by the House)
Sponsor: Representative Andy Meisner
House Committee: Commerce
Senate Committee: Finance

Date Completed: 3-29-07

CONTENT

The bill would amend the General Property Tax Act to suspend from March 1, 2007, to September 1, 2008, an increase in taxable value upon the transfer of ownership of property exempted as a principal residence from the tax levied for school operating purposes.

Under the State Constitution, the taxable value of a parcel of property (adjusted for additions and losses) may not increase from one year to the next by more than 5% or the increase in the consumer price index, whichever is lower, until there is a transfer of ownership. At that time, the assessment is "uncapped" and the parcel is taxed upon its State equalized valuation (50% of its true cash value). (In other words, the taxable value "pops up" upon a transfer of ownership.) These provisions are reflected in the General Property Tax Act, which provides that, upon a transfer of ownership of property, the property's taxable value for the calendar year following the year of the transfer is the property's State equalized valuation for that year.

The Act defines "transfer of ownership" as the conveyance of title to or a present interest in property, including the beneficial use of the property, the value of which is substantially equal to the value of the fee interest. A transfer of ownership of property includes, but is not limited to, various conveyances and transfers listed on the Act. The Act also describes transfers that are not included in the definition.

Under the bill, from March 1, 2007, through September 1, 2008, "transfer of ownership" would exclude the transfer of property exempted, as a principal residence, from the tax levied by a local school district for school operating purposes if the person to whom the property was transferred claimed the exemption from the tax.

(Under the Act, a principal residence is exempt from the tax levied by a school district for school operating purposes to the extent provided under the Revised School Code. To claim the exemption, an owner of property must file an affidavit by May 1 with the local tax collecting unit in which the property is located. The affidavit must state that the property is owned and occupied as a principal residence by that owner of the property. A person may not claim the exemption if any of the following apply:

-- The person's spouse has claimed the exemption.
-- The person or his or her spouse has claimed a substantially similar exemption, deduction, or credit on property in another state that is not rescinded.
-- The person has filed a nonresident Michigan income tax return and is not an active duty military personnel stationed in this State with his or her principal residence in the State.

-- The person previously rescinded an exemption for the same property, since then, there has not been a transfer of ownership of that property, and the person either has claimed an exemption for any other property for that tax year or has rescinded an exemption on other property, which remains in effect for that tax year, and there has not been a transfer of ownership of that property.)

The bill is tie-barred to House Bills 4441 and 4215. House Bill 4441 (H-1) would amend the State Real Estate Transfer Tax Act to raise the tax on transferred property for which a principal residence exemption was claimed from $3.75 to $4.25 for each $500 of the total value of the property being transferred, between April 1, 2007, and September 1, 2008, and provide for distribution of the revenue to the local tax collecting unit. House Bill 4215 would amend the General Property Tax Act to permit a person to retain an exemption from school operating taxes for up to three years on property previously exempted as his or her principal residence if that property were not occupied and were for sale.

MCL 211.27a Legislative Analyst: Craig Laurie

FISCAL IMPACT

The bill would reduce State and local property tax revenue. Based on 2006 data, the bill could reduce property taxes by between $49.6 million and $73.0 million in FY 2006-07 and $148.9 million and $218.9 million during FY 2007-08, depending on the proportion of new residential construction that does not qualify for the principal residence exemption. School Aid Fund revenue from the 6-mill State education tax would decline by $8.8 million and $12.9 million in FY 2006-07 and between $26.3 million and $38.6 million in FY 2007-08. The remaining impact, between $40.9 million and $60.1 million during FY 2006-07 and between $122.6 million and $180.3 million during FY 2007-08, would represent property tax losses to local units of government.

Secondary revenue effects could potentially mitigate the revenue loss, although the distribution of revenue would change and the revenue loss would still be significant. Assuming that the property tax savings were not capitalized into higher home values, as research suggests happens when the tax burden on assets declines (and research suggests happened after Proposal A was adopted), and consumers were able to spend all the additional tax savings on taxable goods and services, sales tax revenue would rise by between $11.9 million and $17.5 million over the 18-month period for which the bill was effective. To the extent that the spending was less than that, or included expenditures on nontaxable goods and services, the offset would be less. Furthermore, local governments would receive little to none of any tax offset.

Fiscal Analyst: David Zin