

Legislative Analysis



ADDITIONAL PRINCIPAL RESIDENCE EXEMPTION FOR A HOME INHERITED FROM A PARENT

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House Bill 6157 (Substitute H-2)

Sponsor: Rep. Judy Nemat

Committee: Tax Policy

Complete to 5-20-10

A SUMMARY OF HOUSE BILL 6157 AS REPORTED FROM COMMITTEE

Under Michigan's school financing system, owner-occupied homes (known as principal residences) are exempt from local school operating taxes and pay only the six-mill state education tax. Typically, a person can only claim one principal residence for this exemption. However, Public Act 96 of 2008 amended the General Property Tax Act to allow a homeowner to claim an additional principal residence exemption in specified circumstances.

Specifically, under PA 96, in addition to an owner's current principal residence, the owner can retain an exemption for up to three years on property previously exempt as the owner's principal residence if that property is not occupied, is for sale, is not leased or available for lease, and is not used for any business or commercial purpose. (This is understood to address the problem of the difficulty of selling a previous home in the current economy when moving to a new home.)

House Bill 6157 would extend this additional exemption so that it would also apply in cases where a deceased owner transfers a home that had been exempt as a principal residence to a natural or adopted child who is already claiming a principal residence by will or intestate succession or by operation of a revocable trust or a qualified personal residence trust. The bill would amend the General Property Tax Act (MCL 211.7cc).

In other words, if a homeowner inherits a parent's home, the principal residence exemption on the inherited home could remain in place for up to three years if the residence is not occupied, is for sale, is not leased or available for lease, and is not used for any business or commercial purpose.

FISCAL IMPACT:

Given that the amount of property that would qualify for the extended 18-mill exemption is not known, the fiscal impact of these bills cannot accurately be determined. To the extent that additional property remains eligible for the 18-mill exemption, local property tax revenue that would be earmarked for local education would decline. Although there is no direct impact on state revenue, there is an indirect burden on the School Aid Fund in that it must compensate for reduced educational funding at the local level.

POSITIONS:

The Department of Treasury has indicated support for the bill. A Treasury spokesperson testified that any revenue lost as a result of the bill would have been "windfall" revenue for local units resulting from the difficult housing market; in normal times these homes would have sold and remained exempt principal residences. (5-19-10)

The Michigan Bankers Association indicated support for the bill. (5-19-10)

The Michigan Townships Association is neutral on the bill and has noted that the new provisions will not be easy for local officials to implement or for the state treasury department to audit. Local assessors are going have to implement the new provision, which in some cases will involve the evaluation of trust documents. (5-19-10)

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