Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 218 (as introduced 2-12-09)
Sponsor: Senator John Pappageorge
Committee: Finance

Date Completed: 9-17-09

CONTENT

The bill would amend the General Property Tax Act to do the following:

-- **Allow a local unit to exempt from the property tax new construction on eligible principal residence property used as a living area.**
-- **Limit new construction eligible for the exemption to 50% or 25% of the existing living area, depending on whether the property was less than 3,000 square feet in area or 3,000 or more square feet in area.**
-- **Provide that the exemption would continue until the property was transferred or for up to a five-year period, whichever was shorter.**
-- **Provide for an adjustment in the property's taxable value if it were transferred or when the exemption period expired.**

Specifically, the governing body of a local governmental unit, by resolution, could exempt from the collection of taxes under the Act new construction on eligible principal residence property used as a living area to the extent and for the duration provided in the bill. The resolution could include all or part of the local unit.

Before the local unit acted on the resolution, the clerk of the local unit would have to give written notice to the assessor of each local tax collecting unit in the local unit and the legislative body of each taxing jurisdiction levying ad valorem property taxes in the local unit, and set a date for a public hearing on the resolution. Notice of the public hearing would have to be published as prescribed in the bill. At the hearing, a citizen, taxpayer, official from a taxing jurisdiction levying property taxes in the local unit, or a property owner of the local unit would have the right to be heard regarding the exemption.

Within 30 days after the public hearing, if the governing body of the local unit intended to proceed with the exemption, it would have to adopt a resolution granting the exemption. The resolution would have to be filed with the Secretary of State promptly after its adoption. The proceedings establishing the exemption would be presumptively valid unless contested in court within 60 days after the resolution was filed.

New construction eligible for exemption would be limited as follows:

-- Not more than 50% of the existing living area of the eligible principal residence property, for property less than 3,000 square feet in area.
-- Not more than 25% of the existing living area of the eligible principal residence property, for property 3,000 square feet or more in area.

The exemption would be effective on the December 31 immediately following the adoption of the resolution. The exemption would continue in effect until the eligible principal residence property was transferred or for a period specified in the resolution, which could not exceed five years, whichever was sooner. If the eligible principal residence property were transferred, the taxable value would have to be adjusted under Section 27a(3) of the Act. If the property had not been transferred and the period specified in the resolution had expired, the taxable value would have to be adjusted as provided in Section 34d(1)(b)(i).

(Section 27a implements provisions of the Constitution under which 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 (SEV), which is 50% of its true cash value. Section 27a(3) provides that, upon a transfer of ownership of property, its taxable value for the calendar year following the year of the transfer is the property's SEV for that year.

Section 34d(1) defines terms used in the Constitution and in Section 27a. Under Section 34d(1)(b)(i), the term "additions" includes "omitted real property", i.e., previously existing tangible real property not included in the assessment. For purposes of determining the taxable value of real property under Section 27a, the value of omitted real property is based on the value and the ratio of taxable value to true cash value the property would have had if it had not been omitted.)

The bill would define "eligible principal residence property" as a principal residence exempt under the Act from the tax levied by a local school district for school operating purposes to the extent provided under the Revised School Code, in the year immediately preceding the first year in which living area new construction was exempt under the bill.

"Living area" would mean an area of principal residence property used by one or more people for domestic residential purposes, including a bedroom, kitchen, bathroom, living room, family room, den, or enclosed porch.

"New construction" would mean that term as defined in Section 34d(1)(b)(iii), i.e., property not in existence on the immediately preceding tax day and not replacement construction; the term includes the physical addition of equipment or furnishings, subject to certain exclusions for normal maintenance.

Proposed MCL 211.7qq Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would reduce both State and local property tax revenue. The magnitude of the impact would depend upon the amount of new construction put into place each year. In recent years, with the housing market collapse, new construction has been significantly less than the long-term average. Based on the long-term average, the bill would reduce local unit revenue by approximately $88.0 million per year, and School Aid Fund revenue under the State Education Tax by approximately $20.0 million per year. Given that current housing activity is down approximately 80% from the average, the likely magnitude in the first year the bill was effective would reduce State revenue only by $4.0 million and local unit revenue by $18.0 million. However, those figures are not reflective of the housing market in general and the bill would not limit its impact to years when the housing market was depressed. As a result, the impact based on the long-term average is more indicative of future-year impacts beyond the first year.

Because the exemptions would last as long as five years, the impacts would cumulate for five years. If the first-year impact were as described as above, but later years reflected the long-term average, the bill would reduce FY 2013-14 revenue to the State by approximately $83.0 million and local unit by approximately $369.0 million.

Fiscal Analyst: David Zin

S0910\s218sa