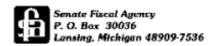
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Senate Bill 346 (as introduced 3-5-09) Sponsor: Senator Mark C. Jansen

Committee: Finance

Date Completed: 3-12-09

CONTENT

The bill would amend the Income Tax Act to allow a taxpayer who purchased property as a principal residence after April 1, 2009, and before January 1, 2011, that resulted in a transfer of ownership and an adjustment in taxable value, to claim a refundable income tax credit equal to the difference between the taxes calculated on the property before the purchase and the taxes after the transfer of ownership.

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 (SEV), which is 50% of its true cash value. (In other words, the taxable value "pops up" upon a transfer of ownership.) These provisions are reflected in Section 27a of the General Property Tax Act. Section 27a(3) 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 SEV for that year.

Under the bill, if a taxpayer purchased a parcel of property after April 1, 2009, and before January 1, 2011, that resulted in a transfer of ownership of that property and, as a result, the taxable value of that property were adjusted under Section 27a(3), the taxpayer could claim a credit against the income tax for each tax year that the taxpayer owned the property and claimed an exemption for it under Section 7cc of the General Property Tax Act as a principal residence following the year of the transfer. The credit would be equal to the difference between the taxes calculated on that parcel of property using the taxable value after the adjustment under Section 27a and the taxes calculated on that parcel using the taxable value before the adjustment. If the credit exceeded the tax liability of the taxpayer for the tax year, the excess would have to be refunded.

(Under 7cc of the General Property Tax 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.)

Proposed MCL 206.254

FISCAL IMPACT

This bill would reduce income tax revenue an estimated \$21.3 million in FY 2010-11 and \$47.4 million in FY 2011-12. The proposed new property tax credit would equal the amount

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by which property taxes increase when a parcel's taxable value reverts to its State equalized valuation following a change in ownership (commonly called the "pop-up" tax). This proposed new credit would be available to taxpayers who 1) purchase a parcel of property after April 1, 2009, and before January 1, 2011, and 2) claim and receive a homestead exemption on this property.

Lag between the "Pop-up" Tax and Credit. There would be a lag between when the "pop-up" tax would be incurred and when the credit would be claimed and received by the taxpayer. The taxable value of an existing house that changes ownership on April 2, 2009, would not be increased to equal the property's SEV until 2010. As a result, the new homeowner would experience the pop-up tax in his or her 2010 property taxes and would claim this credit in FY 2010-11 when filing his or her 2010 annual income tax return. The timing of these events is summarized in Table 1. Taxpayers could attempt to accelerate when they received the benefit of the credit by reducing the amount of income tax being withheld from their paychecks, and thus increasing their take-home pay, during the tax year they incurred the pop-up tax, which would reduce the net income tax refund they would receive in the following year. However, based on past taxpayer behavior, it is not likely that many taxpayers would adjust the amount of income tax being withheld from their pay.

Table 1
Timing of Proposed New Property Tax Credit in SB 346

Year Property	Year "Pop-Up"	Year Credit is
Changes Ownership	Tax is Assessed	Claimed/Received
2009	2010	2011 (FY 2010-11)
2010	2011	2012 (FY 1011-12)

Cost of the Credit. Based on the timing of the proposed new credit, as described above, it would reduce income tax revenue an estimated \$21.3 million in FY 2010-11. This is a much lower cost than would have been the case if the credit had been in effect just a few years ago when the housing market was much stronger; however, at the present time, sales of both new and existing houses are at historical low levels due to the very weak housing market. It is estimated that the cost of this credit would increase to \$47.4 million in FY 2011-12. The level of activity in the housing market is not expected to improve much in 2010, but the cost of credit would increase in FY 2011-12 because those who qualified for the credit in FY 2010-11 would continue to receive it, plus people who purchase a home with a gap between its SEV and taxable value also would receive a credit. purchasing a home between April 1, 2009, and January 1, 2011, and qualifying for the credit would continue to receive the credit each year that they owned the home and received the homestead exemption. In subsequent years, the cost of the credit would undoubtedly decline because no new taxpayers would qualify for it and those already eligible for the credit would lose it as their situations changed and they sold their house or became ineligible for the homestead exemption.

New Credit vs. Existing Homestead Property Tax Credit. Many of the taxpayers who would qualify for the proposed new credit also would qualify for the existing homestead property tax credit. A person who qualifies for the existing property tax credit would realize an increase in this credit equal to 60% of the pop-up tax if he or she is not a senior citizen, or 100% of the pop-up tax if the person is a senior citizen, assuming he or she does not bump up against the maximum income level or credit amount. As a result, the total amount a taxpayer would qualify for under this new credit together with the increase he or she would realize under the existing homestead property tax credit would exceed the total increase in the person's taxes due to the pop-up tax. For example, if a taxpayer (not a senior) with household income of \$50,000 purchases an existing house for \$150,000 and its taxable value increases from \$60,000 to \$75,000 after the ownership change, the taxpayer would experience a pop-up tax of \$540, assuming a property tax rate of 36 mills. The new

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homeowner would qualify for a \$540 credit under this new property tax credit and an increase in the existing homestead property tax credit would equal \$324. Therefore, under this bill, the taxpayer would qualify for a total increase in credits of \$864, which would exceed the overall \$540 increase in property taxes.

Random Nature of Credit. The amount any particular taxpayer would qualify for under this new credit would be very random because it would depend on the difference between the property's SEV and taxable value at the time of the change in ownership - the greater the difference, the greater the credit the new owner would qualify for. The credit would not be related to the new owner's income level or overall level of property taxes, but would depend only on the amount that the property's property taxes increase for the new owner compared with what they were for the previous owner. As a result, the size of the credit could vary greatly among taxpayers with identical income levels who purchase similarly valued For example, if Individual A and Individual B each purchase a house for property. \$150,000, the taxable value for each of these newly purchased houses would revert to the SEV level, which in this example would equal \$75,000. At a tax rate of 36 mills, both of these new homeowners would incur a property tax liability of \$2,700. However, if the house purchased by Individual A were owned by its previous owner for 10 years and had a taxable value equal to 40% of the market value or \$60,000 just before the change in ownership, while the house purchased by Individual B was owned by its previous owner for only two years and had a taxable value equal to 48% of the market value or \$72,000, then Individual A would qualify for a credit under this bill equal to \$540, but Individual B would qualify for a credit equal to only \$108, even though their property values and property taxes are currently identical.

The loss in income tax revenue under this bill would reduce General Fund/General Purpose revenue. The bill would have no direct impact on local government.

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