Legislative Analysis

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PROPERTY TAX EXEMPTION WHEN VACANT SCHOOL BUILDINGS SOLD

House Bill 4121(Substitute H-1)
Sponsor: Rep. Bill Rogers
Committee: Tax Policy

Complete to 3-12-13

A SUMMARY OF HOUSE BILL 4121 AS REPORTED FROM COMMITTEE

The bill would provide a five-year property tax exemption for certain kinds of buildings purchased from a school district, as well as all personal property located on that real property at the time of sale, beginning on December 31st in the year in which the eligible real property was purchased. However, a local taxing unit could elect not to exempt the property.

Such an exemption would only apply to real property that both (1) is currently vacant and (2) was previously used as a school building or was previously used in direct support of school operations.

As noted earlier, the legislative body of any local taxing unit that levies an ad valorem tax within the local tax collecting unit in which the eligible real property is located could by resolution elect not to exempt the eligible real property and personal property from its ad valorem millage. The resolution would have to be adopted prior to December 31 in the year in which the eligible real property is purchased.

The bill would amend the General Property Tax Act, and the exemption from property taxes would apply to taxes levied after December 31, 2013.

MCL 211.7ll

FISCAL IMPACT:

In cases where the school property was transferred to a private for-profit party, the bill would reduce state (SET) and local property tax revenue that would otherwise have been collected.

DISCUSSION:

The aim of the bill is to provide an incentive for purchasers to buy no longer needed school buildings and put them to new uses. There are a great many of these buildings around the state. Some of them may have been empty for some time and may be in need of environmental remediation. The buildings would not have been tax-paying properties if not sold, since they were owned by school districts, and so no existing property tax revenue would be lost by exempting them. The exemption would only be for five years, at which time the property presumably would be on the tax rolls, assuming they were owned by private, tax-paying entities. The personal property tax exemption in the substitute bill only applies to personal property in the building at the time of the sale (and not to future installed property).

The substitute version of the bill also allows each local tax-collecting unit to opt out of providing the exemption. (For example, a former school building could be exempt from city and school district taxes but not from taxes that go to a county or a library district if the county and library district chose to opt out.)

Critics of the bill, notably the Department of Treasury, have said that while the school district selling the property benefits from a tax exemption under the bill (because it both increases the value of the property and helps the property sell), all other districts pay the cost because the state School Aid Fund will have to make up for the revenue that is lost but would have been collected without the exemption. They also say that to the extent property remains unsold because of the need for environmental remediation, then that should be dealt with by other state programs rather than a tax break. Concern was also expressed about the messiness of allowing individual taxing units to opt out, with the result that the property would be exempt in some jurisdictions and not exempt in others.

POSITIONS:

The Department of Treasury testified in opposition to the bill. (2-27-13)

The Michigan Assessors Association testified in opposition the bill. (3-6-13)

The Michigan Townships Association indicated opposition to the bill. (3-6-13)

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