



**House
Legislative
Analysis
Section**

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ASSESSMENTS AFTER REPAIRS

House Bill 5172 (Substitute H-1) **RECEIVED**
First Analysis (11-30-89)

11-30-89

Sponsor: Rep. Victor C. Krause
Committee: Taxation

Mich. Assn. of County Treasurers

THE APPARENT PROBLEM:

Public Act 293 of 1976 (sometimes referred to as the Mathieu-Gast Act) amended the General Property Tax Act to say an assessor, as of December 31, 1976, "shall not consider expenditures for normal repairs, replacement, and maintenance in determining the true cash value of residential property for assessment purposes until the property is sold." The act listed a number of repairs that it considered normal maintenance unless they were part of a structural addition or completion. (They include outside painting; repairing or replacing siding, roofs, porches, steps, sidewalks, and drives; repairs to masonry; replacement of awnings, gutters, downspouts, storm windows, and storm doors; insulation; rewiring; replacing plumbing and light fixtures; new furnaces and hot water heaters; plaster repairs; new ceilings, walls, and floor surfacing; replacing dated interior woodwork; and removing partitions to enlarge rooms.)

Tax specialists say that the act was understood to mean that the cost of normal repairs from 1977 on would not increase the assessment of property and has been administered (based on an attorney general's opinion and instructions from the state tax commission) in a way that requires assessors to determine the fair market value of property without the repairs rather than to deduct the cost of repairs from an assessment. However, tax specialists report, two recent court of appeals decisions have combined to require that the actual cost of repairs must be deducted from an assessment (rather than being ignored), including repairs made prior to 1977 if made by the same owner. Obviously, the difference in interpretation is significant, and legislation has been proposed to return the act to the interpretation that prevailed prior to the recent court decisions.

THE CONTENT OF THE BILL:

The bill would amend the General Property Tax Act to say than an assessor cannot consider the increase in true cash value that is a result of expenditures for normal repairs, replacement, and maintenance made or completed after December 30, 1976, in determining the true cash value of residential property for assessment purposes until the property is sold. The bill would also prohibit an assessor from increasing the construction quality classification or reducing the effective age for depreciation purposes (unless the earlier appraisal was erroneous) and from assigning an economic condition factor to the property that differed from the economic condition factor assigned to similar properties as defined by appraisal procedures applied in a particular jurisdiction.

MCL 211.27

FISCAL IMPLICATIONS:

According to a memo from the House Taxation Committee staff, the Department of Treasury has estimated the loss over time from the court decisions as over \$1.4 billion. Of

that, \$548 million would be lost by in-formula school districts; \$364 million by out-of-formula school districts; and \$492 million by cities, counties, and townships. The House Taxation staff memo says, "the timing and speed of the revenue loss is a function of how assessors would recognize the court decision."

ARGUMENTS:

For:

The bill would restore the Mathieu-Gast Act to its original interpretation by specifically saying that there would be no increase in the assessment of a residential property due to certain "normal repairs, replacement, and maintenance" carried out on the property. (It would also make it clear that this applies only to repairs made from 1977 on.) Recent court decisions have said the act requires assessors to deduct the cost of repairs made on residential property from the assessed value of the property. This interpretation would cause huge revenue losses for schools and local units of government. It also would produce unusual and inequitable effects because the more expensive a particular repair was, the greater the reduction in a tax assessment. A homeowner who hired a contractor, for example, would benefit far more than one who did his or her own work even though the work carried out was exactly the same. Under the bill, both would benefit equally. The aim of the original act was to remove the disincentive for repairing and maintaining residences by saying that property owners would not be penalized through higher taxes for making certain improvements.

POSITIONS:

The Department of Treasury supports the bill. (11-29-89)

The Michigan Association of Counties supports the bill. (11-29-89)

The Michigan Assessors Association supports the bill. (11-29-89)

H.B. 5172 (11-30-89)