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ASSESSMENT FREEZE CHANGES

Senate Bill 42 with House committee amendments Second Analysis (9-26-91)

Sponsor: Sen. Dave Honigman
Senate Committee: Finance
House Committee: Taxation

THE APPARENT PROBLEM:

Public Act 15 of 1991, enacted this spring, provides for 1992 property tax assessments to be frozen at 1991 levels. The act allows taxpayers to appeal their 1992 assessments if they did not appeal in 1991. Tax experts have pointed out that any reductions granted on appeals would result in an equalization factor applied to all property, which would result in a small increase in assessments despite the freeze. Further, P.A. 15 specifies that the freeze applies only to real property (land and buildings) and not to personal property (certain machinery, equipment and fixtures taxable under the General Property Tax Act). However, under the act, a building that is owned by a person who does not own the land upon which the building sits is considered personal property, and thus is not subject to the assessment freeze. To implement the assessment freeze as the legislature intended, amendments are needed.

THE CONTENT OF THE BILL:

The bill would amend the General Property Tax Act to delete language that allows a property owner to appeal a 1992 assessment if an appeal was not made in 1991. However, the bill would allow appeals of 1992 assessments of property if the owner did not appeal the assessment in 1991 and if the property was acquired after January 1, 1991 by inheritance, through foreclosure, or by a bona fide arms-length transaction. The 1992 equalized value of the property of a city, township or county would be adjusted only to reflect additions, losses, splits, and combinations; tax tribunal changes to 1991 assessments; and the amount by which assessments were changed by the board of review on 1992 appeals regarding newly acquired property.

P.A. 15 requires that notification of the assessment freeze be sent to all property owners. Under the bill, the notice would have to include a statement that since there was no assessment increase in 1992,

the board of review would only consider appeals concerning the valuation of property where additions, losses, splits and combinations had occurred or where property had been acquired after January 1, 1991 and the owner did not appeal the assessment in 1991, or appeals regarding exemptions. The notice would further state that taxpayers could appeal 1993 assessments in 1993. Further, the bill would allow this statement to be included with the December 1991 tax bill or mailed separately before the deadline for mailing the 1992 assessment notice, instead of requiring an assessment notice itself to be sent to every property owner (as required under P.A. 15).

Finally, the bill would specify that, for purposes of the assessment freeze, a building owned by a person who does not own the land upon which the building sits would not be considered personal property (and thus would be subject to the assessment freeze). Likewise, the bill would specify that, for purposes of the assessment freeze, leasehold improvements (improvements made to a property by a lessee) would not be considered personal property and thus would be subject to the freeze.

MCL 211.10

HOUSE COMMITTEE ACTION:

The bill was first reported from the House Taxation Committee on July 25, 1991, and was re-referred to the committee on August 22, 1991. The committee rescinded the amendments it previously recommended and reported the bill on September 25, 1991 with further amendments. With its current committee amendments, the bill differs from the Senate-passed version in that it would allow for appeals on 1992 assessments of property acquired after January 1, 1991, specify that any adjustments in valuations resulting from such appeals and from

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tax tribunal changes to 1991 assessments would reduce the equalized value of property of the local unit, and allow taxing units to combine the required notice of the assessment freeze with the December tax bill.

FISCAL IMPLICATIONS:

Fiscal information is not available.

ARGUMENTS:

For:

The bill would make several adjustments in the property tax freeze legislation enacted this spring. It would make certain buildings and improvements on buildings subject to the freeze even though they are defined as personal property under the property tax act; this is in keeping with the intent to freeze assessments on real estate, and would treat owners of such property equally with other property owners. Further, the bill would limit more strictly 1992 assessment appeals so as to prevent a subsequent equalization factor from increasing the "frozen" assessments. The only exception would be for newly acquired property, which may have been purchased during the freeze period for an amount that was less than its assessed value, and should rightfully be subject to appeal. Any reductions granted from these appeals, and from changes in 1991 assessments made by the tax tribunal, would reduce the equalized value of the property of the local unit, so that there would be no effect on the valuation of other property in the community.

For:

The bill would allow taxing units to combine the required notice of the assessment freeze with the December tax bill, thus eliminating the added expense of an additional mailing to all taxpayers.

Against:

Allowing even a limited right to appeal 1992 assessments is problematic. As amended by the House Taxation Committee, the bill would essentially eliminate the normal equalization of assessments that is needed to assure uniformity of the tax base across jurisdictions, as required by the Article IX, Section 3 of the state constitution. Further, this provision would exacerbate the fiscal impact of the freeze on local governments, estimated at \$388 million for 1992. The Senate-passed version of the bill would simply eliminate the right to appeal 1992 assessments, which some argue

would be a simpler way of dealing with the problem.

Against:

An acknowledged problem with the original tax freeze policy is that it locks in any existing inequalities in assessments. By limiting citizens' rights to appeal assessments, Senate Bill 42 would compound that problem.

POSITIONS:

A representative of the Department of Treasury testified before the House Taxation Committee in support of the bill. (9-25-91)