



**House
Legislative
Analysis
Section**

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PA 198: TAXABLE VALUE

**House Bill 5126 as enrolled
Public Act 1 of 1996
Second Analysis (3-11-96)**

**Sponsor: Rep. Susan Grimes Munsell
House Committee: Tax Policy
Senate Committee: Economic
Development, International Trade, and
Regulatory Affairs**

THE APPARENT PROBLEM:

The term "taxable value" has been added to property tax statutes to implement the constitutional limit on how much property assessments can increase from one year to the next. That limit was added to the state constitution by passage of Proposal A on March 15, 1994. It says the assessment ("taxable value") of a parcel of property cannot increase from one year to the next by more than five percent or the percentage increase in the consumer price index, whichever is less. (When property is sold, it is re-assessed based on market value.) Property taxes are now based on "taxable value" of property, which will be lower than state equalized value (SEV) where property values are increasing at a rate higher than the limit. When industrial facilities gain abatements under the plant rehabilitation and industrial development act (usually referred to as PA 198), they are exempted from property taxes and instead pay a "specific" tax. The specific tax, which varies depending on whether a facility is a new or renovated facility, is calculated, however, taking into account the same kind of factors (millage rates and property value) used in determining property taxes. The abatement calculation in the act still refers to "state equalized valuation" and not to "taxable value." This means the new assessment cap has not been applied to property with PA 198 tax abatements. Some people believe the assessment cap ought to apply to this property.

THE CONTENT OF THE BILL:

House Bill 5126 would amend the plant rehabilitation and industrial development act (Public Act 198 of 1974), which provides for property tax abatements for industrial facilities that are awarded exemption certificates, so that the tax rates under the act would be calculated using "taxable value" rather than "state equalized value."

The bill also contains a provision to allow an exemption certificate to be issued to a facility located in an

industrial development district that was established in December 1995 for which an application was filed in November or December 1995 for construction that began in September 1995. (This would be an exception to the requirement that a district be created before construction begins. Similar exceptions are already found in the act.)

MCL 207.553 et al.

FISCAL IMPLICATIONS:

The House Fiscal Agency has said, "Inflation is projected to be lower than 5 percent over the foreseeable future and industrial property does not typically appreciate in value faster than inflation; therefore, there is not likely to be any revenue loss . . . except during periods of high inflation, or under unusual circumstances." (Fiscal Note dated 10-3-95)

ARGUMENTS:

For:

Legislation implementing the constitutionally imposed assessment cap overlooked industrial property that has an exemption certificate entitling the owner to pay a special specific tax in lieu of property taxes. The bill would say that the taxes paid by industrial facilities with PA 198 exemptions must be calculated using taxable value and not state equalized valuation (SEV). The term "taxable value," generally speaking, refers to the SEV of property adjusted to take into account the assessment cap.

Response:

There is some question as to whether the assessment cap applies to this abated property. The property in question is subject to a specific tax in lieu of property taxes, and so it may not be appropriate to calculate the tax rate using the property's taxable value rather than its SEV. There could be a constitutional challenge. A

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recent opinion by the attorney general said that another kind of property, that which is subject to the state utility tax rather than standard property taxes, is not included in the assessment cap language in Article IX, Section 3 of the state constitution. The state utility tax is covered under Article IX, Section 5. While the opinion did not deal with specific taxes generally, it is possible a similar conclusion could be reached regarding specific taxes, including those imposed under PA 198. It should also be noted that, according to a Department of Treasury official, when a PA 198 abatement ends and the property returns to the regular property tax rolls, the property is valued as if the assessment cap had been on during the period of the abatement.

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.