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SFA**BILL ANALYSIS**

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Senate Bill 1054 (Substitute S-1 as reported)
Sponsor: Senator Bill Bullard, Jr.
Committee: Finance

Date Completed: 6-9-98

RATIONALE

The General Property Tax Act provides that all tangible personal property, with certain exceptions, must be assessed to the owner, in the local unit in which the property is located on tax day (December 31). Currently, certain "qualified personal property" is taxable to the user of the property in the local unit in which the property is located; however, this provision applies only to property rented on a long-term basis (at least 12 months). Some people believe that the current method of taxing property rented on a short-term basis places a burden on rental businesses.

Under the Act, a business must file an annual personal property statement, listing various information about tangible personal property it owns and uses in its business. A rental business must list the property it offers for rent, and that property is taxed in the local unit in which the business is located; however, if an item of rental property is located in another local unit on tax day, that local unit may assess the property and send the owner a tax bill. Reportedly, some owners of rental businesses have found that they have been taxed twice for the same property, that is, once by the local unit in which the business is located and once by the local unit in which the property is located. It has been suggested that the Act be revised to require payment of the tax once, in the local unit in which the business is located.

CONTENT

The bill would amend the General Property Tax Act to revise the way in which certain rental property is taxed as personal property. The bill provides that "rental inventory" would have to be assessed to the owner by the local tax collecting unit in which the owner was located, and would not be assessable in the local unit in which the rental inventory was

located if the owner were not also located there, if both the following conditions were met:

- The owner (together with any affiliated company) derived 50% or more of the owner's (and any affiliated company's) gross proceeds in the tax year from the rental of the rental inventory.
- Possession of the rental inventory was not transferred to the same person for more than six months in any 12-month period, and the rental inventory was transferred for household use 50% or more of the time.

When filing the personal property statement that is required under the Act, the owner of rental inventory would have to provide information or documentation or an affidavit establishing that these criteria were met. The owner also would have to provide at least one of the following: a sales tax and use tax return filled by the owner (or any affiliated company), in the tax year for which the personal property statement was required, representing all transactions from the immediately preceding calendar year; or any other documentation that would establish that 50% or more of the owner's (and any affiliated company's) gross proceeds in the tax year for which the required statement was filed were derived from the rental of rental inventory.

"Rental inventory" would mean tangible personal property that was subject to a rental agreement and principally rented for household use 50% or more of the time, the possession of which was transferred for consideration for an hourly, daily, weekly, or monthly period. Rental inventory would not include a videotape, medical supplies or equipment, recreational equipment, or linens.

MCL 211.13 et al.

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

Reportedly, when a rental business rents an item it has no way of knowing, and cannot control, where the property will be used. That is, a rental company in a local unit has no way of preventing the renter from using the property in another local unit. If another local unit finds that such property is located in its jurisdiction on tax day, it may send a tax bill to the owner of the property. Meanwhile, the owner by law must file an annual personal property tax statement, which is used to assess the property by the local unit in which the owner is located. Reportedly, this has resulted in situations in which the owner of rental property has paid personal property tax to both local units, for the same item of property. Supposedly, the owner can get a refund of the tax paid in one unit by showing the other unit that the tax was paid, but only after filing an amended return, which often requires the business to pay its tax accountant for the effort. Further, currently some rental businesses that are located near multiple local units may receive tax bills from several of them, resulting in a paperwork burden and great expense. The bill would correct this situation by requiring payment of the tax once, in the local unit in which the business was located.

Legislative Analyst: G. Towne

FISCAL IMPACT

The bill would have no fiscal impact on State government. The bill would reduce property tax collections for local units in which the specified rental personal property is located and owned by an entity in which 50% or the majority of the entity's gross proceeds are from rental personal property, and would increase property tax collections for local units in which the qualified business or entity that owns the rental personal property is located.

Fiscal Analyst: R. Ross

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.