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DEFER PROPERTY TAXES

House Bill 4336
Sponsor: Rep. Steve Pestka
Committee: Tax Policy

Complete to 3-22-99

A SUMMARY OF HOUSE BILL 4336 AS INTRODUCED 2-25-99

The bill would amend Public Act 225 of 1976, which currently allows the deferral of special assessments by low-income senior citizens and certain other homeowners, to establish a similar process for the deferral of property taxes. Taxes would be deferred until one year after the owner's death or until the homestead (or any part of the homestead) was conveyed or transferred. The Department of Treasury would have to pay the entire balance of property taxes owing, including delinquent amounts, to the local tax collecting unit. (The act contains a special revolving fund for this purpose.) To participate, the property owner would need to have equity in the homestead equal to at least 25 percent of twice the homestead's state equalized valuation (which, in theory, is the equivalent of 25 percent of market value, since a property's SEV is supposed to be equal to 50 percent of its market value).

Eligibility. The bill would use the eligibility standards for the existing special assessment program, with some changes that would apply to both programs. Under the bill, an owner of a homestead who was 65 years of age or older, was totally and permanently disabled, was an adult in need of protective services, or had a child under 18 for which he or she claimed a dependency exemption under the state income tax, could apply to the Department of Treasury for deferment of the payment of property taxes levied on his or her homestead. There would also be a limit on household income for eligible homeowners. (The act sets the income limit at $10,000, to be adjusted annually, beginning in 1984, based on the Detroit consumer price index. The House Fiscal Agency estimated the eligible household income limit at $15,600 for 1998.) Also, a person would have to be a citizen of the United States, have resided in the state for five years, and have owned the homestead for three or more years. The references to an adult in need of protective services and to a person with a dependent child would be added by this bill, and the ownership requirement would be reduced to three years from five. These would be new criteria for special assessment deferments as well.

Loan Repayment. The bill would also provide that a person who meets the eligibility criteria for deferral would be eligible to have a loan taken out to pay a special assessment or property taxes repaid. Money from the special revolving fund would be used to repay the lending institution the principal amount used by the eligible person to pay the assessment or taxes.

Interest and Penalties. The payment of property taxes deferred would include interest at a rate of one-half of one percent per month or fraction of a month. If the property had been conveyed or transferred but the deferment not terminated, there would be additional interest of one percent per month or fraction of a month.

Application Process. The owner of a homestead would have to apply to the Department of Treasury for a deferment on an affidavit form made available at convenient locations by the department. (Applications for a deferment of special assessments are made to the local assessing officer.) The affidavit would have to be filed at least 30 days before the due date of the bill for which the deferment was being requested. If the homestead was jointly owned by husband and wife, each would have to sign the affidavit. If the homestead was mortgaged or there was an unpaid balance on a land contract, the written consent of the mortgagee or land contract vendor would have to accompany the affidavit. (Currently, the affidavit is due 30 days after the due date for special assessments; this would be changed to before the due date for special assessments as well.) The affidavit would have to contain a statement that the owner seeking a deferment had received or applied for all available property tax credits under the Income Tax Act.

The department would have to promptly make its decision about the eligibility of the applicant for a deferment. Annually, the department would have to determine the eligibility of owners with a deferral and secure an assignment to the state of any property tax credit allowed under the Income Tax Act payable to a person with deferred property taxes, and that credit would be applied to any lien imposed on the homestead under the assessment and tax deferment act. (The department is required to record a lien in favor of the state with the county register of deeds when it transmits the revenue to the local unit.)

Insurance Coverage. The application for a deferment of property taxes would have to contain 1) a statement that the owner has property and casualty insurance in an amount at least equal to the amount of all special assessments and taxes being deferred and 2) an assignment to the state of the owner's interest in property and casualty insurance in an amount equal to the amount of deferred assessments and taxes.

Revolving Fund. Public Act 225 of 1976 created a special revolving fund to pay special assessments, and $3 million from the Michigan Veterans Trust Fund was used to create the fund. Property taxes would also be paid from this fund to local units. Amounts paid to the department as payments for deferred assessments or taxes would be credited one-half to the revolving fund and the remainder to the veterans trust fund until the trust fund was repaid the initial $3 million. Once that amount was repaid, all of the amounts received would be credited to the special revolving fund.

MCL 211.761 et al.

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■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.