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SFA BILL ANALYSIS

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Senate Bill 709 (Substitute S-2 as passed by the Senate)
Sponsor: Senator Mike Goschka
Committee: Finance

Date Completed: 1-10-00

RATIONALE

Much has been said in recent years about how agriculture has come under increasing economic pressures. To address this and other issues related to agriculture, the Senate Agriculture Preservation Task Force was created in the spring of 1999. The task force was asked to examine the condition of agriculture in Michigan and identify the challenges and threats it faces. After receiving testimony from over 250 persons, the task force produced a report on agriculture in the State. The report states that the farm sector is in the worst condition it has been in since the mid-1980s; prices for many commodities are as low as they have been in decades; few young people are entering agriculture; and economic pressures on farmers and processing industries are causing agricultural resources, including land, to be removed from farm production. The report concludes that the fundamental cause of the problems in farming is low profits, and that policies designed to address the issues facing agriculture should focus on profitability. The report lists 12 specific recommendations for State action, including reducing taxes, developing new tax credits and enhancing current credits, and protecting farms against certain State and local regulations. In regard to tax reduction, the report recommends that the assessment cap on agricultural property be maintained when agricultural property is transferred.

Currently, under Article 9, Section 3 of the State Constitution, annual assessment increases on each parcel of property (adjusted for additions and losses) are limited to the lesser of 5% or the rate of inflation. When property is subsequently transferred (as defined by law), the assessed value reverts to 50% of true cash value (the State equalized valuation). The cap results in each parcel having two values: the taxable value, which reflects the parcel's capped value and is the basis upon which taxes are levied; and the State equalized valuation (SEV), which is a measure of the value of the property on the open market. Thus, in any area where the value of property rises faster than the rate of inflation or 5% per year, a parcel's taxable value will be lower than its SEV, and this discrepancy will grow larger each year. When the property is transferred, in the first year the new owner must pay taxes based upon the property's SEV. It has been pointed out that this increase in property taxes can be particularly burdensome to those purchasing farm property, because such sales usually involve substantial tracts of valuable land. It has been suggested that, under certain circumstances, the assessment on transferred agricultural property should remain capped if the new owner keeps the property in agricultural use.

CONTENT

The bill would amend the General Property Tax Act to specify that a transfer of ownership of property would not include a transfer of qualified agricultural property, if the person to whom the property was transferred filed an affidavit attesting that the property would remain qualified agricultural property for at least seven years from the date of transfer. (This means that annual assessment increases would remain limited to the lesser of 5% or the rate of inflation and the assessed value would not revert to 50% of true cash value upon the transfer.) The affidavit would have to be filed with both the local tax collecting unit and the register of deeds for the county in which the property was located; and would have to be on a form prescribed by the Department of Treasury.

If the property ceased to be qualified agricultural property within the seven-year period, then the property's assessment would have to be adjusted to reflect the property's SEV. The adjustment would apply as of the December 31 in the year of the transfer, if the property ceased to be qualified agricultural property within three years of being transferred. If the property ceased to be qualified agricultural property more than three years after being transferred, then the adjusted assessment would apply as of the December 31 in the year three years before the property ceased to be qualified agricultural property. (For example, if agricultural property were sold in January 2000 and ceased to be qualified agricultural property in June 2002, the adjusted assessment would begin as of December 31, 2000. If the property ceased to be qualified agricultural property in June 2006, the adjustment would apply beginning December 31, 2003.)

If a tax roll affected by the adjustment were in the possession of the local tax collecting unit, the tax roll would have to be amended to reflect the adjustment of the property's taxable value, and the treasurer would have to issue a corrected tax bill for previously unpaid taxes. If the tax roll affected by the adjustment were in the possession of the county treasurer, it would have to be amended to reflect the adjustment, and the county treasurer would have to prepare and submit a supplemental tax bill for any additional unpaid taxes. Any additional taxes collected by the local unit or county treasurer would have to be distributed in the same manner as other taxes are distributed under the Act.

(Under the Act, "qualified agricultural property" is unoccupied property and related buildings classified as agricultural, or other unoccupied property and related buildings located on that property devoted primarily to agricultural use. Related buildings include a residence occupied by a person who is employed in or actively involved in the agricultural use and who has not claimed a homestead exemption on other property. Property used for commercial storage, commercial processing, commercial distribution, commercial marketing, or commercial shipping operations or other commercial or industrial purposes is not qualified agricultural property. A parcel of property is devoted primarily to agricultural use only if more than 50% of the parcel's acreage is devoted to agricultural use.)

MCL 211.27a

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

Farming remains an enormous part of the overall economy of Michigan. According to the Michigan Agriculture Statistics Service, the agricultural sector adds over $4 billion to the State's economy each year. Nevertheless, farmers are facing difficult times. Agricultural prices, adjusted for inflation, are at their lowest levels since the depression, according to the Agricultural Preservation Task Force report. Some food processing plants have closed or moved out of the State. Low profitability in agricultural operations has caused many farmers to transfer their assets (land) to nonfarmers, usually developers. This has resulted in a steady reduction in the number of acres in farm production. Many people feel this will have long-term negative consequences for society in general, because it will reduce the nation's ability to provide food for an ever-increasing population, and increase our dependence on foreign producers. By ensuring that, when transferred, farm property would continue to be assessed based upon its capped value rather than its open-market value, the bill would prevent farmers' property taxes from rising dramatically, and thus would increase the farmers' chances of remaining profitable.

Supporting Argument

Taxes must be included in the cost of production; therefore, higher taxes result in lower profits. In the case of a transferred farm in a developing area, an assessment based upon the SEV rather than the farm's value under the assessment cap may preclude future use of the land for farming; that is, when the property is transferred either by sale or to an heir, the new assessment may raise the property taxes to the point at which the new owner can no longer make a viable profit by farming the land. The next logical step, then, is to sell the land to developers for residential, commercial, or industrial use, thus removing the land from farm production. Once this happens, the property is almost never returned to farmland. The State should take steps to ensure that agriculture remains a vital part of Michigan's economy, and to do that the State must do what it can to help farmers. The bill would implement one of several recommendations made by the Task Force to provide substantial tax relief to farmers, and thus would help to keep farmland as farmland.

Legislative Analyst: G. Towne

FISCAL IMPACT

The bill would reduce property taxes by $3.4 million in calendar year 2000. Local government property tax revenue would decline by $1.4 million and school property taxes would decline by $1.2 million. The State fiscal impact would be a $0.8 million reduction in the State education tax revenue. The State also would have to pay an additional $0.7 million to reimburse the schools for lost property tax revenue. The net fiscal impact on schools, therefore, would be a loss of $0.5 million. To the extent that property ceased to be qualified agricultural property and the taxable value was increased, property taxes would increase and offset the projected losses.

Fiscal Analyst: R. Ross