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NEIGHBORHOOD ENTERPRISE ZONE: EFFECTIVE DATE OF CERTIFICATE

House Bill 4548 as introduced First Analysis (5-2-01)

Sponsor: Rep. Nancy Cassis
Committee: Commerce

THE APPARENT PROBLEM:

The Neighborhood Enterprise Zone Act was enacted in 1992 as an effort to improve the housing stock in urban areas where little or no new construction was taking place and much housing was in need of rehabilitation. The act offers reduced property taxes to property owners in certain designated zones. Generally, new construction pays at a rate one-half of the statewide average property tax rate and rehabilitated housing pays taxes based on a property's value prior to its improvement. An owner or developer must obtain the approval of the local unit of government and the State Tax Commission for an exemption certificate good for 12 years.

The act says a certificate takes effect on the first day of the tax year following the year in which the housing was substantially completed and, in the case of new housing, was occupied by an owner as a principal residence. This means, say critics, that if a new home is completed in the fall of 2000 but not occupied until early in 2001, the exemption would not apply until the 2002 tax year, and the property would be subject to the full unabated taxes for the 2001 tax year. (Obviously, this problem does not exist where a home is completed and occupied in the same calendar year.) The difference between the amount of taxes due can be significant; in Detroit for example, it would be the difference between 16 mills and 60 mills, according to testimony before the House Commerce Committee. Not only does this deny homeowners the promised tax break, but developers have said that it sometimes affects the ability of prospective buyers to get a mortgage, because the high first year taxes can make it harder for them to qualify for the loan. Legislation has been introduced in an attempt to rectify this situation.

THE CONTENT OF THE BILL:

The bill would amend the Neighborhood Enterprise Zone Act so that the certificate awarded to property owners entitling them to a tax abatement would take

effect on December 31 in the year immediately preceding the tax year in which the newly constructed housing or the rehabilitated housing was completed and, in the case of new housing, was occupied by an owner as his or her principal residence. (Currently, such a certificate takes effect on the first day of the tax year following the year in which the housing was substantially completed and, for new housing, occupied by an owner as a principal residence.)

MCL 207.780

FISCAL IMPLICATIONS:

The House Fiscal Agency reports that the bill could result in an indeterminate decrease in state and local revenues, with the fiscal impact depending on the number of facilities receiving certificates and the value of the property. (Fiscal Note dated 4-23-01)

ARGUMENTS:

For:

The bill would address the problem some homeowners face when moving into housing in a special tax-abated zone under the Neighborhood Enterprise Zone Act. The certificate's current effective date can result in homeowners sometimes being required to pay the full non-abated property taxes in the first year of occupancy. This occurs if, for example, a new home is finished late in one year but not occupied until the next year. Currently, the certificate would be effective on the first day of the tax year following the year in which the home was occupied. This is a hardship for some new homeowners (who had anticipated the tax abatement) and may even make purchasing a home more difficult. The earlier effective date for the exemption certificate will address this. (Exemptions would still last for 12 years total.)

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Response:

While the bill solves one kind of problem it may create another. In the case of a new home completed and occupied in the same year, the current effective date works well. For those cases, however, the bill could push the effective date back to a time when the prospective new home was only partially completed or even a vacant lot. Since the tax exemption is for 12 years total, the bill would add an exemption year at the beginning (when taxes would have been lower anyway) and eliminate an exemption year at the end (when the abatement might have more value). This could mean a reduction in the value of the tax exemption for some participants in neighborhood enterprise zone programs. Perhaps what is needed is a way to provide a choice of effective dates, based on the circumstances involved.

POSITIONS:

A representative from Crosswinds Communities testified in support of the bill. (4-24-01)

The Michigan Municipal League supports the concept of the bill. (5-1-01)

The Michigan Assessors Association has indicated support for the bill. (5-1-01)

A representative of SEMCOG has indicated support for the bill. (5-1-01)

The Michigan Economic Development Corporation has no position at this time. (5-1-01)

Analyst: C. Couch

■ 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.