

Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536



BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

House Bill 4548 (Substitute S-1 as reported)
Sponsor: Representative Nancy Cassis
House Committee: Commerce
Senate Committee: Economic Development, International Trade and Regulatory Affairs

Date Completed: 10-23-01

RATIONALE

The Neighborhood Enterprise Zone Act allows eligible governmental units to designate neighborhood enterprise zones, within which the owner or developer of property may receive a certificate that exempts new or rehabilitated housing from the property tax, and subjects it instead to a specific neighborhood zone tax. Essentially, the zone tax on a new facility is half the amount of the property tax that otherwise would be assessed. The tax on a rehabilitated facility is frozen at the rate imposed before the renovations were made. Certificates are in effect for 12 years and cannot be issued after December 31, 2002.

The Act provides that a certificate qualifying an owner for exemption from property taxes takes effect on the first day of the tax year following the year in which the housing is substantially completed and, in the case of new housing, is occupied by an owner as a principal residence. This enables a neighborhood enterprise zone resident to receive the full 12-year benefit of his or her tax abatement. Starting the exemption in the next tax year can cause a problem, though, for a new home owner who begins occupancy in the year after the home is completed. For instance, if the construction of a new home is completed in a neighborhood enterprise zone late in 2001, but the owner does not occupy the home as a principal residence until early in 2002, the tax break will not be implemented until the beginning of 2003, and the homeowner will be responsible for the full, unabated amount of property tax on that home for 2002. Some people believe that, in the case of housing completed in one year but not occupied until the next, the homeowner should be allowed to receive the tax exemption for the year preceding occupancy.

CONTENT

The bill would amend the Neighborhood Enterprise Zone Act to change the effective date of a neighborhood enterprise zone certificate. Currently, a certificate becomes effective on the first day of the tax year following the year in which the new facility or rehabilitated facility is substantially completed and, for a new facility, occupied by an owner as a principal residence. Under the bill, the effective date of a certificate would be December 31 in the year in which a new or rehabilitated facility was substantially completed and, for a new facility, occupied by an owner as a principal residence. If, however, a new facility were substantially completed in a year but not occupied by an owner as a principal residence until the following year, upon the owner's request the effective date of the certificate would be December 31 in the year preceding the date of occupancy.

MCL 207.780

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

The bill would address an unanticipated consequence associated with the timing of a property tax exemption under the Neighborhood Enterprise Zone Act. Since a certificate for a property tax exemption on new housing takes effect on the first day of the tax year following the completion *and* occupancy by the owner, the tax break can be delayed by a year when new housing is completed in one calendar year and not

occupied until the next. The difference in the amount of taxes due in that first year of occupancy can be significant. Furthermore, the higher taxes in the first year of occupancy can make it difficult for some prospective buyers to qualify for a mortgage loan.

By allowing a homeowner to request that a neighborhood enterprise zone certificate take effect on December 31 of the year before the owner's occupancy, if a new facility were completed in one year but not occupied until the next, the bill would enable the homeowner to avoid paying the full property tax for the first year of living in the new home. The bill therefore could encourage more new housing development in communities that qualify for neighborhood enterprise zones. Offering such an advantage, then, would be consistent with the aim of the Act to stimulate new housing development in economically distressed communities suffering from high property taxes combined with depressed property values.

Opposing Argument

As passed by the House, the bill would have changed the effective date of a tax exemption certificate to December 31 in the year preceding completion or completion and occupancy. This would have allowed all housing projects in a neighborhood enterprise zone to benefit from the earlier tax exemption effective date, regardless of whether they involved new or refurbished housing or whether completion and occupancy occurred in the same year.

Response: That proposal could have led to another negative consequence. In the case of a new home completed and occupied in the same year, the current system works well. The House-passed version, however, would have pushed the effective date back to a time when a prospective new home was only partially completed or even a vacant lot. Since the tax exemption under the Act is in effect for 12 tax years, the House proposal would have included a year at the beginning of the 12-year period when taxes are lower anyway, due to the unimproved condition of the property, and would have eliminated a year at the end of that period when the tax abatement has more value. As a result, the value of the tax exemption would have been reduced for some participants in neighborhood enterprise zone programs. By offering the choice of the early exemption effective date

only to owners of new housing that was completed in one year and occupied in the next, the bill would avoid any further problems with shortchanging the beneficiaries of a neighborhood enterprise zone tax break.

Legislative Analyst: P. Affholter

FISCAL IMPACT

In the short term, the bill would reduce State and local property tax revenues by an unknown amount. The fiscal impact would depend upon the number of facilities receiving certificates and the value of the properties affected by the bill. In fiscal year 2001-02, exemption certificates under the Neighborhood Enterprise Zone Act reduced local property tax revenues by an estimated \$2.5 million in the eight cities that participate in the program. Since the bill would affect only properties where completion and occupancy occur in different years, it is expected that few properties would be affected by the bill. Consequently, it is expected that the impact of the bill on local units would be a fraction of the \$2.5 million figure. The impact of the bill on State revenues would be much less than the impact on local revenues due to the lower millage rate levied by the State.

For those properties where the owner elected to advance the effective date of the exemption, the bill would reduce local unit revenues in the short term and increase them in the long term. Advancing the effective date of the exemption for those properties would effectively convert the exemption into an 11-year exemption, thus allowing the local unit to receive more revenues than it would otherwise.

Fiscal Analyst: D. Zin

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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.