



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 5743 (Substitute S-2 as reported)  
Sponsor: Representative Nancy Cassis  
House Committee: Tax Policy  
Senate Committee: Finance

Date Completed: 10-7-02

**RATIONALE**

The ways the State finances education were substantially altered by the adoption of Proposal A in 1994. The changes included the enactment of the State Education Tax Act, under which the State levies a six-mill education tax on both homestead and nonhomestead property. Further, amendments to the Revised School Code were adopted to allow school districts to levy up to 18 mills on nonhomestead property for local school operating taxes. Under the General Property Tax Act, taxpayers who own and occupy a homestead may file with the local tax collecting unit a homestead exemption affidavit, which exempts the property from the school operating taxes. Once an exemption is in place, it remains until the property is transferred or ceases to be a homestead.

Under Section 7cc of the General Property Tax Act, the Department of Treasury must determine if property is the homestead of an owner who claims an exemption, and may review the validity of exemptions for the current calendar year and for the three preceding calendar years. If the Department determines that the property is not the owner's homestead, the Department must notify the local tax collecting unit that the claim for exemption is denied, and the local treasurer must issue a corrected tax bill for previously unpaid taxes. In contrast, a homeowner who is eligible for an exemption but fails to file an affidavit, or does not file by the deadline (May 1), may appeal to the local board of review to claim the exemption, but only in the year in which the exemption is claimed or the immediately succeeding year. (If the exemption is granted, the taxpayer is entitled to a rebate for overpayment of the

tax.) It has been suggested that since the local unit may issue a corrected tax bill for unpaid taxes for the current year and up to the three preceding years, a homeowner who failed to claim a valid exemption and thus overpaid his or her taxes should be allowed to claim the exemption for the same number of years.

**CONTENT**

The bill would amend the General Property Tax Act to allow a homeowner to claim a homestead property tax exemption for up to three previous years, and claim a rebate for overpayment of taxes for each of those years and for the year in which the appeal was filed.

Under Section 7cc of the Act, an owner who, on May 1, owned and occupied a homestead for which the exemption was not on the tax roll, may file an appeal with the local board of review in the year for which the exemption was claimed or the immediately succeeding year. The bill would allow the owner to file an appeal in the year for which the exemption was claimed or the succeeding three years.

Further, under the Act, if granting an exemption results in an overpayment, the local tax collecting unit or the county must make a rebate, including any interest paid, to the taxpayer. The bill states that a correction that granted a homestead exemption under Section 7cc could be made for the year in which the appeal was filed and the three immediately preceding tax years.

MCL 211.7cc & 211.53b

## **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**

Many eligible homeowners (individuals who own and occupy their principal residences) do not file affidavits that allow them to claim an exemption from local school operating property tax. Reportedly, some homeowners do not realize that they are eligible for the exemption, do not know of its existence, or do not know that they must file an affidavit to receive it. First-time homeowners or homeowners new to the State may not be familiar with Michigan's property tax system. Further, some taxpayers may confuse the homestead exemption, which appears on property tax bills, with the homestead property tax credit, which is a credit against the income tax for property taxes paid and which eligible homeowners claim on their income tax forms.

In any case, those homeowners who fail to file an affidavit but discover later that they were eligible for the exemption from school operating property tax may, under current law, file an affidavit for the current year and the previous year and receive a rebate for overpayment of the tax. The Department of Treasury, however, may assess a taxpayer for unpaid taxes for the current year and the three preceding years if it finds that the taxpayer filed for a homestead exemption that he or she was not eligible to claim. By allowing a taxpayer the same length of time to claim an exemption for which he or she qualified, as the State may "look back" to assess valid but unpaid taxes, the bill would correct the current inequity.

**Response:** Although this inequity should be addressed, the bill would have a significant negative revenue impact on the State at a time when the State can ill afford it.

Legislative Analyst: George Towne

## **FISCAL IMPACT**

According to information from the Department of Treasury, this bill would reduce local school 18-mill nonhomestead property tax revenue by an estimated \$5.8 million in FY 2002-03. In subsequent years, the loss in revenue

would be about half this amount. While the provisions in this bill would directly reduce local school property taxes, the final impact of this loss in revenue would be on the State School Aid Fund. The State guarantees school districts a particular funding level per pupil, known as the guaranteed foundation allowance. The amount of this guaranteed funding level that is not generated locally through the 18-mill nonhomestead property tax is automatically paid to the school district by the State through the School Aid Fund. Therefore, under this bill, in FY 2002-03, revenue from the 18-mill nonhomestead property tax would decline by an estimated \$5.8 million, but this loss would be automatically made up by \$5.8 million in increased payments to local schools from the School Aid Fund.

Fiscal Analyst: Jay Wortley

H0102\s5743a

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.