

**HOMESTEAD CREDIT: COUNT
CERTAIN SPECIAL ASSESSMENTS**

**Senate Bill 23 as passed by the Senate
First Analysis (6-19-03)**

**Sponsor: Sen. Alan Sanborn
Senate Committee: Finance
House Committee: Tax Policy**

THE APPARENT PROBLEM:

The Income Tax Act allows a taxpayer to claim a credit for the amount of property taxes paid that exceed a specified percentage of his or her household income. This is known as the homestead property tax credit or the circuit breaker. Generally speaking, a credit is available equal to 60 percent of the amount by which property taxes exceed 3.5 percent of household income. Larger credits are available for certain categories of taxpayer, such as senior citizens, deaf, blind, and disabled taxpayers and veterans, among others. In calculating the credit, a taxpayer can apply not only the property taxes he or she has paid but also special assessments if they were levied across the entire city, village, or township and were based on property value. A problem has arisen with this treatment of special assessments. As explained by a representative of the Michigan Townships Association, a resident of a village is also a resident of a township. Some townships when creating special assessment districts to pay for public safety programs, such as police, fire, and emergency services, levy the assessment on all property in the township except property in a village. This would occur where the village already provides its residents the public safety services. This prevents double taxation of village residents. It also has the effect, however, of denying township taxpayers the ability of using the special assessments in calculating a circuit breaker credit because the assessments are not levied across the entire township. Legislation has been introduced to address this.

THE CONTENT OF THE BILL:

Senate Bill 23 is a companion bill to House Bill 4008. Together, they would amend the Income Tax Act so that a special assessment levied for police, fire, and advanced life support could be used in calculating the homestead property tax credit if the assessment is levied in the entire township except all or a portion of a village within the township and if the assessment is levied and based on state equalized

value or taxable value. Special assessments for other purposes could still only be counted toward the homestead credit if assessed in the entire city, village, or township and if levied and based on state equalized valuation or taxable value. The bills also would require that to qualify as property taxes under the Income Tax Act, a special assessment would have to be levied using a uniform millage rate on all non-exempt property. Specifically, Senate Bill 23 applies to tax years before the 2003 tax year; House Bill 4008 applies to the 2003 tax year and beyond. The two bills are tie-barred, meaning neither can take effect unless both are enacted. [NOTE: House Bill 4008 has already been passed by both houses of the legislature and was presented to the governor on June 12.]

MCL 206.512

FISCAL IMPLICATIONS:

The House Fiscal Agency has reported that House Bill 4008 would reduce income tax revenues by slightly less than \$500,000 per year. The HFA also notes that, assuming that taxpayers do not adjust their withholding and reduce gross income tax revenue, the full impact would fall on the general fund. (HFA floor analysis dated 3-19-03) Senate Bill 23 would, in and of itself, have no fiscal impact, according to the Senate Fiscal Agency. (SFA floor analysis dated 6-3-03)

ARGUMENTS:

For:

Township residents ought to be able to use special assessments levied for public safety purposes when calculating the homestead property tax credit. To deny these assessments because they are not levied across the whole township results in denying deserving taxpayers, including elderly, disabled, and low income homeowners, the full amount of their

Senate Bill 23 (6-19-03)

income tax credit (or could deny them eligibility for a credit at all). As explained earlier, sometimes the assessments are not levied across the entire township for good reasons when a village and township overlap, and township taxpayers should not be penalized for this. Village residents are also township residents. Village residents may be paying taxes to the village for their own public safety services already and the township will need to exempt them from the township special assessment twice for the same kind of services. Note that the bill only applies to public safety services and not to such things as sewers and sidewalks and, as amended in committee, only applies in cases where a special assessment is not levied on all township property because of the need to exempt village residents. By allowing these special assessments to be used in calculating the property tax credit, the bill will also remove an impediment to getting public safety assessments approved. This is important given the dual prospect of increased security concerns and reduced revenue sharing to local units of government.

Response:

It should also be noted that the kind of special assessments under discussion here have their critics, who say that they are really property taxes in disguise. Allowing such assessments to be used in calculating the homestead property tax credit supports this view. Over the long run, the use of special assessments that look like property taxes (but are not subject to the same conditions and limitations as property taxes) probably should be addressed.

POSITIONS:

The Department of Treasury supports the bill. (6-18-03)

The Michigan Townships Association has indicated support for the bill. (6-18-03)

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.