

**HOMESTEAD CREDIT: COUNT  
CERTAIN SPECIAL ASSESSMENTS**

**House Bill 4008 as enrolled**  
**Public Act 28 of 2003**  
**Sponsor: Rep. Brian Palmer**  
**House Committee: Tax Policy**  
**Senate Committee: Finance**

**Senate Bill 23 as enrolled**  
**Public Act 29 of 2003**  
**Sponsor: Sen. Alan Sanborn**  
**Senate Committee: Finance**  
**House Committee: Tax Policy**

**Second Analysis (7-10-03)**

***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 BILLS:***

Together, the two bills amend the Income Tax Act so that, beginning with the 2003 tax year, a special assessment levied for police, fire, and advanced life support can be used in calculating the homestead property tax credit if the assessment is levied on all non-exempt property (1) in the entire township or (2) in the entire township except all or a portion of a village within the township. In both cases, the assessment must be levied and based on state equalized value or taxable value. Special assessments for other purposes can 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 require that to qualify as property taxes under the Income Tax Act, a special assessment must be levied using a uniform millage rate on all non-exempt property. Specifically, House Bill 4008 applies to the 2003 tax year and beyond, while Senate Bill 23 addresses the tax years before the 2003 tax year.

MCL 206.512 and 206.512a

***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 income tax credit (or could deny them eligibility for a credit at all). As explained earlier, when a village and township overlap, there can be good reasons not to levy public safety assessments across the entire township, and township taxpayers should not be penalized in these cases. 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 so they will not have to pay 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 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 by local governments 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.

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.