

RAISE INCOME THRESHOLD FOR DEFERRAL OF SUMMER TAXES

**House Bill 4705 (Substitute H-1)
First Analysis (10-21-03)**

**Sponsor: Rep. Sal Rocca
Committee: Senior Health, Security and
Retirement**

THE APPARENT PROBLEM:

The General Property Tax Act allows the disabled, the blind, paraplegics and quadriplegics, persons at least 62 years old, eligible military personnel, veterans, and widows or widowers whose household incomes are no more than \$25,000 to ask local governments to defer their summer taxes. Local governments must defer their taxes until the following February 15. (The deferral is available as well to eligible farmers although using different eligibility criteria.) In other words, the summer taxes are treated as winter taxes for these taxpayers. The deferment permits these taxpayers to apply for and receive homestead property tax credits (available under the Income Tax Act) before they must pay their property taxes. However, the income threshold has not been increased since 1992. Some people feel it should be increased since the cost of living has increased.

THE CONTENT OF THE BILL:

The General Property Tax Act requires a local unit of government that collects a summer property tax to defer its collection for the homesteads of certain taxpayers at their request. Among those eligible for deferral are taxpayers who are totally and permanently disabled, blind, paraplegic, eligible servicepersons, veterans, and their widows or widowers, or 62 years of age or older (and an unremarried surviving spouse of any age) and who had a household income of \$25,000 or less in the prior tax year. House Bill 4705 would increase the household income threshold to \$35,000 beginning in 2005. (The term "homestead" refers to an owner-occupied principal residence; the bill would replace that term with the term "principal residence" to conform with changes to the tax law that will take effect January 1, 2004, but will refer to the same property.)

[Property owners must file a claim for deferment with the local treasurer by September 15 or by the

time the tax would become subject to interest or late penalty charges. Summer taxes are then deferred until the following February 15 without any interest or penalty. Household income is defined to include all income received by all persons of a household in a tax year while members of the household.]

MCL 211.51

BACKGROUND INFORMATION:

The last time the income threshold for deferral of summer taxes was increased was in 1992. Public Act 97 of 1992 raised the income threshold to \$25,000 and permitted the deferment for people 62 years of age or older and their unremarried surviving spouses.

FISCAL IMPLICATIONS:

According to the House Fiscal Agency, since the property taxes in question would ultimately be received, the actual fiscal impact would be limited primarily to foregone interest that the funds could have generated. However, the potentially greater issue is that of cash flow, especially for local units.

Based on information provided by the Department of Treasury, the HFA notes that increasing the income threshold from \$25,000 to \$35,000 would result in an additional \$21 million in deferred property tax payments. Since these payments, which would normally be due in September, would not be received until the following February, this could create a problem for local units, most significantly during the first year of the change. (10-15-03)

ARGUMENTS:

For:

The income limitation for the summer property tax deferral program has been at \$25,000 since being

raised in 1992. The bill would propose a modest increase to partially offset the increase in the cost of living. (This would be only the third increase since the deferral program began in 1976.) The deferral of taxes is critical for some people who otherwise would be forced to decide between payment of taxes and the purchase of necessities, such as medications. It allows some people to use their homestead property credits (against the income tax) to pay property taxes.

Response:

Though an inflationary adjustment certainly is warranted after a decade of being at the same level, the timing of the bill must be questioned. The state is in one of the worst budget situations ever faced. Just recently, another budget shortfall of nearly a billion dollars has been identified, necessitating even greater budget cuts for the current fiscal year than have already been implemented. It is likely that local governments will see additional cuts to proposed revenue sharing funds. To shift the property tax collection from one fiscal year to another at this time could be burdensome to many local governments.

Rebuttal:

To address that concern, the bill was amended so that the threshold limit increase for eligibility would not apply until the 2005 summer taxes. The economy is already beginning to turn around and by summer of 2005, local governments should be better able to adjust to any increase in the numbers of persons requesting a deferral.

Against:

There is concern about the impact on the cash flows of local units of government, including school districts, that rely on summer property tax collections. If a lot of newly eligible people request a property tax deferral, a burden could be put on local units.

Response:

The impact is not expected to be that great. Besides, the same argument was made in 1992, and that legislation not only increased the threshold limit, it also expanded the age group eligible for the deferment, yet it did not prove overly burdensome. Many people in the \$25,000-\$35,000 income bracket are struggling to make ends meet. Since they do not qualify for the tax deferment, they may simply not pay their taxes on time. Eventually, the taxes are paid, usually by the February 15th date, but then penalties for late payments must also be paid, creating an even greater hardship for these individuals. It may be that the bill has little impact on local units of government because the taxpayers who may avail themselves of the deferment may be the ones who have been paying their taxes late. On

the positive side, the bill would retain the existing February 15 date so as not to disrupt the tax delinquency schedule, and the increased threshold level would not affect summer property taxes due in summer of 2003 or 2004 – giving local units time to prepare for an increase in the requests for deferrals.

POSITIONS:

The Michigan Municipal League is neutral on the bill. (10-16-03)

The Department of Treasury is opposed to the bill. (10-16-03)

A representative from the Michigan Association of Counties indicated opposition to the bill as introduced. (10-16-03)

Analyst: S. Stutzky

■ 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.