



Senate Fiscal Agency  
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BILL



ANALYSIS

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Senate Bill 23 (as enrolled)  
House Bill 4008 (as enrolled)  
Sponsor: Senator Alan Sanborn (S.B. 23)  
Representative Brian Palmer (H.B. 4008)  
Senate Committee: Finance  
House Committee: Tax Policy

**PUBLIC ACT 29 of 2003**  
**PUBLIC ACT 28 of 2003**

Date Completed: 8-26-03

### **RATIONALE**

Under the Income Tax Act, if a taxpayer qualifies, he or she may claim a credit for the amount of property taxes paid on a homestead that exceeds a certain percentage of the taxpayer's household income. In general, this homestead property tax credit is equal to 60% of the amount by which the taxpayer's property taxes exceed 3.5% of household income. Larger credits are allowed for certain taxpayers, such as veterans, senior citizens, or those who are blind, deaf, or disabled. Property taxes included in the calculation of the credit are those paid by the taxpayer on a homestead in the State, but do not include penalties or interest. Special assessments may be included in the calculation but, until now, special assessments could be included only if they were assessed in the entire city, village, or township. It was pointed out that this restriction limited the credit claimed by some township taxpayers.

The limitation arose in some townships that contain all or part of a village that provides police, fire, and emergency services to its residents. If a township also wishes to levy a special assessment for these public safety programs, it may levy the assessment within the township, excluding the village. This meant that the township taxpayers could not use the special assessment in calculating the homestead property tax credit, because the assessment was not levied across the entire township. Some people believe that taxpayers in this situation should be allowed to use the special assessment in the calculation of their credit.

### **CONTENT**

**The bills amended the Income Tax Act to include in the calculation of the homestead property tax credit, for the 2003 tax year and thereafter, certain special assessments levied in a township, excluding a village.** The bills were tie-barred.

#### **House Bill 4008**

The bill added a new section to the Act to state that "property taxes", for the 2003 tax year and thereafter, means general ad valorem taxes levied on a homestead in the State (including property tax administration fees) but does not include penalties, interest, or special assessments, unless a special assessment is levied using a uniform millage rate on all real property not exempt by State law from such a levy, is based on SEV or taxable value, and either: 1) is levied in an entire city, village, or township; or 2) is for police, fire, or advanced life support and levied in an entire township excluding all or a portion of a village within the township.

#### **Senate Bill 23**

The bill amended Section 512 of the Act, which defines certain terms used for the calculation of the homestead property tax credit, to apply the previous definition of "property taxes" to tax years before 2003. Also, under the bill, for special assessments to be included as "property taxes" for tax years before 2003, a special assessment must be levied using a uniform millage rate on all real property not exempt by law from the levy of the special assessment.

## **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**

Some villages in the State provide police, fire, and emergency services, paid for by village residents through property taxes or special assessments. If a township that contains such a village also levies a millage or special assessment on its residents for these public safety programs, it may exclude the village so that the village residents are not taxed again for services they already have. This exclusion, however, prevented taxpayers in the township from using the special assessment in the calculation of the homestead property tax credit, although the village taxpayers could apply their special assessment toward their credits. This was an inequitable application of the tax laws and had the effect of denying township taxpayers their fair share of their credits. The bills corrected this inconsistency.

Legislative Analyst: George Towne

## **FISCAL IMPACT**

### **House Bill 4008**

The bill will reduce General Fund/General Purpose and possibly School Aid Fund revenues.

Based upon the special assessments levied in 2001 and information from the Department of Treasury, the bill will reduce revenues by approximately \$0.6 million per year. If this entire amount is claimed through the homestead property tax credit, then the entire impact will fall on the General Fund. To the extent that taxpayers adjust their withholding and/or estimated payments to reflect a larger tax credit, a portion of the impact will reduce School Aid Fund revenues. It is expected that the overwhelming majority of the bill's impact will affect the General Fund.

### **Senate Bill 23**

The bill will have no fiscal impact on State or local government.

Fiscal Analyst: David 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.