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BILL ANALYSIS

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Senate Bill 520 (Substitute S-2 as reported)
Sponsor: Senator Cameron S. Brown
Committee: Finance

CONTENT

The bill would amend the General Property Tax Act to do the following:

-- Allow a county treasurer or county equalization director to conduct an audit of homestead exemptions claimed in the local tax collecting units of the county.
-- Require the Department of Treasury to conduct annual audits of homestead exemptions in counties that elected not to conduct audits.
-- Allow a county treasurer or equalization director, or assessor for a local tax collecting unit, to deny a claim for a homestead exemption for a current year and the three preceding years if the treasurer, director, or assessor believed that property for which an exemption was claimed was not the homestead of the owner claiming the exemption.
-- Require the Department each year to give a county treasurer or equalization director a list of parcels located in that county for which an exemption could have been erroneously claimed.
-- Allow a county treasurer or equalization director, or a local assessor, to retain a portion of interest and penalties accrued on erroneous exemptions, and require that the amounts be deposited in a county or local restricted fund to be used solely for administration of homestead exemptions.
-- Specify that a person would not be entitled to a homestead exemption if the person or his or her spouse owned property in another state, for which the person or spouse claimed an exemption, deduction, or credit substantially similar to the homestead exemption allowed under the Act (unless the person and his or her spouse filed separate income tax returns).
-- Change the deadline for filing a claim for a homestead exemption from May 1 to tax day (December 31 each year) for taxes levied after 2002.

MCL 211.7cc et al. Legislative Analyst: George Towne

FISCAL IMPACT

The bill would increase State, school district, and local unit revenues and reduce School Aid Fund expenditures. Based on information from the Michigan Department of Treasury, the bill could increase school district revenues by approximately $51 million in fiscal year (FY) 2003-04, $27 million in FY 2004-05 and $18 million per year after FY 2004-05. County revenues would increase by approximately $2.8 million in FY 2003-04, $1.5 million in FY 2004-05 and $1.0 million per year after FY 2004-05. Revenues received by local assessing units would increase by $6.3 million in FY 2003-04, $3.3 million in FY 2004-05 and by $2.2 million per year after FY 2004-05. The State would receive approximately $0.9 million in FY 2003-04, $0.5 million in FY 2004-05 and $0.3 million per year after FY 2004-05. School Aid Fund expenditures would be reduced by $51 million in FY 2003-04, $27 million in FY 2004-05 and by $18 million per year after FY 2004-05.

The estimates of revenues that would be received by the State and local units other than school districts assume that interest and penalties would not be waived when an exemption was denied and back taxes were assessed. The estimates also assume that the Department of Treasury would deny approximately 10% of the exemptions, while counties and local assessors would each deny 45%. To the extent that counties or other taxing authorities waived interest, the bill would raise less revenue for the State and local units other than school districts.

Actual receipts under the bill will depend upon the extent of efforts to audit claimed exemptions. Sufficient staff may not be available at either the county level or at the Department of Treasury to obtain the estimated revenue. If a county elects to conduct the audit, and as a result, the Department of Treasury does not conduct any audits for that county, and then does not devote sufficient staff to detecting the estimated number of exemptions that should be denied, then actual revenues would be lower than estimated. Similarly, if the Department of Treasury is not able to devote adequate staff to fully auditing exemptions, the actual revenues would be lower than estimated. Because the bill requires audits for all counties that do not elect to perform such audits themselves, the bill could conceivably require the Department of Treasury to divert staff from other tasks to fulfill the requirements of the bill. The amount by which revenues might fall below estimated levels if inadequate or diverted staff at the county or State level occurs is unknown.

School Aid Fund expenditures would decrease because increases in locally generated revenues, such as through the up to 18 mills levied for school operating purposes, are offset dollar-for-dollar by reduced School Aid Fund payments. School Aid Fund expenditures would fall by more than school district revenues would increase because counties would be allowed to keep 10% of the additional taxes but the calculation for School Aid Fund payments would not reflect the share of the taxes received by a county . When calculating School Aid Fund payments, current law would assume the school districts received 100% of the additional taxes, not 90%, as under the bill. Similarly, the bill appears to have some conflict with other sections of statute, which designate that the mills levied for school operating purposes be paid to schools, because school districts would only receive 90% of such levies.

This estimate is preliminary and will be revised as new information becomes available.

Date Completed: 6-13-03

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