

Legislative Analysis



NEIGHBORHOOD ENTERPRISE ZONES: INCLUDE SOME RECENTLY PURCHASED HOMES

Mitchell Bean, Director
Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

Senate Bill 529

Sponsor: Sen. Martha G. Scott

Senate Bill 530

Sponsor: Sen. Buzz Thomas

House Committee: Commerce

Senate Committee: Finance

Complete to 12-12-05

A SUMMARY OF SENATE BILLS 529 AND 530 AS PASSED BY THE SENATE 12-8-05

These two bills are part of a package of bills that would make "homestead facilities" eligible for residential tax abatements under the Neighborhood Enterprise Zone Act (MCL 207.772 et al.). Currently, the act applies only to newly constructed and rehabilitated residential housing. The bills would apply to other existing residences purchased since December 31, 1997 and located in subdivisions platted before January 1, 1968. The total acreage of neighborhood enterprise zones containing only homestead facilities could not exceed 10 percent of the total acreage within the boundaries of the local governmental unit, although the limit could be increased to 15 percent with approval of the county. (This would be in addition to the current 15 percent limit on existing neighborhood enterprise zones.)

A homestead facility within such a zone would receive a property tax abatement equal to one-half of property taxes levied for operating purposes on the building by the local unit and the county. As with existing eligible new residential properties, the abatement would be available only to owner-occupied housing of one or two units (where one of the units is the owner's principal residence).

The Neighborhood Enterprise Zone Act was enacted in 1992 as an effort to improve the housing stock in certain "distressed" urban communities. The act offers reduced property taxes to residential property owners in certain zones designated by local units of government. Generally speaking, owners of new construction pay taxes at the rate of one-half the statewide average property tax rate, and owners of rehabilitated housing pay taxes based on the value of residential property prior to rehabilitation. The abatement applies to structures and not to land. Property owners who obtain a neighborhood enterprise zone certificate are exempt from standard property taxes and pay a specific tax instead known as the neighborhood enterprise zone tax. Generally speaking, the abatements are available from 6 to 12 years.

Senate Bill 530 would do the following:

- Add "homestead facilities" to the list of properties eligible for residential tax abatements under the act.
- Define the term "homestead facility."
- Impose the acreage limitation on exempted homestead facilities.

- Require a minimum investment of \$500 in the residential property in the first three years the abatement is in effect.
- Allow NEZ certificates to have a maximum duration of 15 years rather than 12 years if issued before January 1, 2006, and allow certificates issued prior to that date to be extended for three years.
- Allow NEZ certificates to be awarded to properties in county seats, in addition to the current list of so-called core communities.

Senate Bill 529 would make necessary amendments to the section of the act under which the State Tax Commission determines whether the property approved for an NEZ certificate by the local unit meets the act's requirements.

The provisions that describe how the neighborhood enterprise zone tax would be calculated for the new category of exempt residential properties—the "homestead facility"—are contained in House Bill 4540. That bill also would provide a new calculation of the tax in the final years before an exemption certificate expires for certain kinds of exempt residential property.

For the new homestead facilities, and for new and rehabilitated facilities with certificates issued after December 31, 2005, and certificates that had received three-year extensions, the following phase-out schedule would be followed.

- In the year two years before the year in which the certificate expires, the tax would be equal to five-eighths of the mills levied for operating purposes on the building by the local unit and the county, plus all other mills levied. (The other mills presumably would include all the mills levied by other taxing jurisdictions, plus operating mills on land levied by the local unit and county, and debt millage.)
- In the year before the exemption certificate expires, the tax would be equal to three-quarters of the mills levied for operating purposes by the local unit and the county, plus all other mills levied.
- In the year that the exemption certificate expires, the tax would be equal to seven-eighths of the mills levied for operating purposes by the local unit and the county, plus all other mills levied.

FISCAL IMPACT:

Senate Bill 530 will lower State and local property tax revenue by an indeterminate amount. Reasonable estimation will require the exact number and location of all homestead facilities and the duration of all exemption certificates granted. Senate Bill 529 would have no fiscal impact on the State of Michigan government or its local units of government.

Legislative Analyst: Chris Couch
Fiscal Analyst: Richard Child

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