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BILL ANALYSIS

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Senate Bill 348 (Substitute S-1 as reported)
Sponsor: Senator Nancy Cassis
Committee: Finance

CONTENT

The bill would amend the General Property Tax Act to increase from $25,000 to $40,000 the maximum household income of a taxpayer 62 years old, or older, who may defer the collection of summer property taxes, and to remove the income limit for other taxpayers eligible for the summer tax collection deferral.

Under the Act, a local unit of government that collects a summer property tax against the homestead of a taxpayer must defer until the following February 15 the collection of summer property taxes for which a deferral is claimed by a taxpayer who had a total household income of $25,000 or less for the prior taxable year and who is a totally and permanently disabled person, blind person, paraplegic, quadriplegic, eligible serviceperson, eligible veteran, or eligible widow or widower, or who is 62 years of age or older.

Under the bill, a taxpayer would be eligible for the deferral, without regard to income, if he or she were a totally and permanently disabled person, blind person, paraplegic, quadriplegic, eligible serviceperson, eligible veteran, or eligible widow or widower. A taxpayer who was 62 years of age or older could claim the deferral if, for the prior taxable year, he or she had a total household income of $25,000 or less before January 1, 2006; $37,500 or less after December 31, 2005, and before January 1, 2007; and $40,000 or less after December 31, 2006.

MCL 211.51 Legislative Analyst: J.P. Finet

FISCAL IMPACT

The bill would alter the timing of when a portion of property tax revenue is received. As a result, the bill would result in both cash flow impacts for some local units and one-time reductions in revenue for the State and some local units each time the income thresholds in the bill changed, because the delay would push the payment into a different fiscal year. School Aid Fund expenditures should be relatively unaffected because school districts operate on a fiscal year such that the deferral would not push payments into a new fiscal year.

The bill also would change the manner in which the income limit is applied when eligibility for a deferral is determined. Under current law, a taxpayer must meet two criteria to be eligible for a deferral: 1) household income must be $25,000 or less, and 2) the taxpayer must belong to one of several categories of eligible taxpayers, including disabled individuals, veterans and related individuals, or those aged 62 or older. The bill would change the eligibility for deferrals so that only those aged 62 or older would face the income restriction, while individuals with the other identified characteristics would qualify for the deferral regardless of their income. This change would substantially increase the fiscal cost of the bill. Although an accurate estimate is not yet available, very preliminary work on certain subgroups affected by the bill suggests that the fiscal impact would be at least tripled, compared with the cost of simply increasing the income limits and continuing to apply them to the identified taxpayers, and could be substantially larger.

While it is unknown how many taxpayers would qualify for the deferral, as well as how many taxpayers who qualified would pursue a deferment and how much the deferred summer tax levy would total, based upon assumptions for these factors, if the income limits continued to apply to all those affected by the bill, the bill would reduce State education tax revenue to the School Aid Fund by approximately $3.8 million to $5.1 million in FY 2005-06 and by $700,000 to $1.0 million in FY 2006-07. Under these assumptions, the bill would defer approximately $29.9 million to $40.0 million in local unit revenue in FY 2005-06 and an additional $5.6 million to $7.5 million in FY 2006-07. For local units on a July-to-June fiscal year, this deferral only would affect cash flow, by delaying the receipt of payments from earlier in the fiscal year until later. However, local units on an October-to-September fiscal year, or a fiscal year that matches the calendar year, likely would experience a one-time revenue loss in each fiscal year during which the income threshold increased.

The Department of Treasury estimates that changing the income threshold to $35,000 in FY 2004-05, compared with an eventual $40,000 under the bill, would result in approximately 11,500 additional deferrals totaling approximately $20.0 million and reduce School Aid Fund revenue by approximately $4.0 million in FY 2004-05, assuming that the income constraint continued to apply to disabled individuals and eligible veterans or related individuals.

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

Date Completed: 5-3-05 | Fiscal Analyst: David Zin