



Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bill 859 (Substitute S-1 as reported)
Sponsor: Senator Nancy Cassis
Committee: Finance

Date Completed: 11-3-05

RATIONALE

Under the General Property Tax Act, Michigan residents who own their principal residence may claim a homestead exemption from the 18 mills typically levied by a local school district for school operating purposes. Some of the State's disabled residents, however, are not able to claim the homestead exemption because their principal residence is owned by a trust that was set up for their benefit. Such trusts are sometimes established to allow a trustee or trustees to manage a disabled person's financial affairs when he or she is unable to do so. Some people believe that a permanently disabled individual in this situation should be eligible to receive the homestead exemption.

CONTENT

The bill would amend the General Property Tax Act to allow a totally and permanently disabled sole beneficiary of a trust to receive a homestead or qualified agricultural property exemption if the trust purchased or acquired the property as a principal residence for the beneficiary.

Under the Act, a principal residence or qualified agricultural property is exempt from the mills levied by a local school district for school operating purposes, if the owner claims an exemption. In this context, the term "owner" means any of the following:

- A person who is a partial owner of property.
- A person who owns property as a result of being a beneficiary of a will or trust or

as a result of intestate succession (inheritance in the absence of a valid will).

- A person who owns or is purchasing a dwelling on leased land.
- A person holding a life lease in property previously sold or transferred to another.
- A grantor who has placed the property in a revocable trust or a qualified personal residence trust.
- A cooperative housing corporation.
- A facility registered under the Living Care Disclosure Act.

Under the bill, "owner" also would include the sole present beneficiary of a trust if the trust purchased or acquired the property as a principal residence for the sole present beneficiary of the trust, and the sole present beneficiary of the trust were totally and permanently disabled.

"Totally and permanently disabled" would mean disability as defined in Section 216 of Title II of the Federal Social Security Act. (Under that section, "disability" means either blindness or an inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or has lasted or can be expected to last for a continuous period of not less than 12 months.)

MCL 211.7dd

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

A disabled individual's primary residence is sometimes owned by a trust established for his or her benefit. Despite the fact that such trusts are often set up to benefit a disabled individual who is unable to manage his or her financial affairs, the General Property Tax Act does not recognize the disabled individual as an "owner" for the purpose of the homestead exemption. Reportedly, requiring a trust to pay the 18 mills levied by local school districts on property purchased for the benefit of a disabled beneficiary causes many of the trusts financial hardship. The bill would ease the financial burden on the trusts by granting the disabled beneficiary the same homestead exemption available to other property owners for their principal residence.

Legislative Analyst: J.P. Finet

FISCAL IMPACT

The bill would increase School Aid Fund expenditures by an unknown and likely negligible amount, depending upon the number of taxpayers affected by the bill. Affected taxpayers would be exempt from local property tax mills levied by schools for operating purposes (usually 18 mills). The exemption would reduce locally generated school revenue, which would be offset by increased School Aid Fund expenditures in order to maintain guaranteed per-pupil funding levels.

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

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.