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BILL ANALYSIS

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Senate Bill 859 (as enrolled)
Sponsor: Senator Nancy Cassis
Senate Committee: Finance
House Committee: Tax Policy

**PUBLIC ACT 114 of 2006**

Date Completed: 1-23-07

## 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, were 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 amended 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.**

The bill took effect on April 10, 2006.

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.

The bill amended the definition of "owner" to 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 is totally and permanently disabled.

The bill defines "totally and permanently disabled" as disability as defined in Section 216 of Title II of the Federal Social Security Act, without regard to whether the sole present beneficiary of the trust has reached the age of retirement. (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 did 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 caused many of the trusts financial hardship. The bill will 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: Suzanne Lowe

**FISCAL IMPACT**

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

Fiscal Analyst: David Zin