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BILL ANALYSIS



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Senate Bill 1004 (as enrolled)
Sponsor: Senator Michelle A. McManus
Senate Committee: Finance
House Committee: Tax Policy

PUBLIC ACT 446 of 2006

Date Completed: 2-1-07

CONTENT

The bill amended the General Property Tax Act's definition of "transfer of ownership" to exclude a transfer of land, but not buildings or structures located on the land, if the land is subject to a conservation easement under the Natural Resources and Environmental Protection Act; or if a transfer of ownership of the land or a transfer of interest in it is eligible for a deduction as a qualified conservation contribution under the Internal Revenue Code.

Under the State Constitution, the taxable value of a parcel of property (adjusted for additions and losses) may not increase from one year to the next by more than 5% or the increase in the consumer price index, whichever is lower, until there is a transfer of ownership. At that time, the assessment is "uncapped" and the parcel is taxed upon its State equalized valuation (50% of its true cash value). These provisions are reflected in the General Property Tax Act, which provides that, upon a transfer of ownership of property, the property's taxable value for the calendar year following the year of the transfer is the property's State equalized valuation for that year.

The Act defines "transfer of ownership" as the conveyance of title to or a present interest in property, including the beneficial use of the property, the value of which is substantially equal to the value of the fee interest. A transfer of ownership of property includes, but is not limited to, various conveyances and transfers listed on the Act.

The Act also describes transfers that are not included in the definition.

Under the bill, beginning on its effective date, "transfer of ownership" excludes a transfer of land, but not buildings or structures located on the land, that meets one or both of the following requirements:

- The land is subject to a conservation easement under the Natural Resources and Environmental Protection Act (NREPA).
- A transfer of ownership of the land or a transfer of an interest in the land is eligible for a deduction as a qualified conservation contribution under Section 170(h) of the Internal Revenue Code (which defines "qualified conservation contribution" as a contribution of a qualified real property interest to a qualified organization exclusively for conservation purposes).

As used in the bill, "conservation easement" means that term as defined in Section 2140 of NREPA, i.e., an interest in land that provides limitation on the use of land or a body of water or requires or prohibits certain acts on or with respect to the land or body of water, whether or not the interest is stated in the form of a restriction, easement, covenant, or condition in a deed, will, or other instrument executed by or on behalf of the owner of the land or body of water or in an order of taking, which interest is appropriate to retaining or maintaining the land or body of water, including improvements on it, predominantly in its natural, scenic, or open condition, or in an

agricultural, farming, open space, or forest use, or similar use or condition.

The bill took effect on December 8, 2006.

MCL 211.27a

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

It is estimated that this bill will reduce property tax revenue by less than \$1 million during an average year. In any given year, the cost could be more than this if an above-average share of all property in conservation easements were to change ownership. This loss in revenue will affect local governments, school districts, and the School Aid Fund.

Fiscal Analyst: Jay Wortley

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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.