Legislative Analysis

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COMMERCIAL REDEVELOPMENT ACT

House Bill 5459
Sponsor: Rep. Jeff Mayes
Committee: Tax Policy

Complete to 2-26-08

A SUMMARY OF HOUSE BILL 5459 AS INTRODUCED 11-20-07

The bill would amend the Commercial Rehabilitation Act to make property tax abatements available for the construction of new buildings on vacant property if the new construction is an economic benefit to the local community, as determined by the local unit of government.

The bill aims to accomplish this by including within the definition of "qualified facility" "vacant property on which commercial property will be newly constructed." The term "rehabilitation" in the act would also be amended to add new construction on vacant property and to add the qualifier about a finding of economic benefit.

Currently the act applies to a building or contiguous buildings of commercial property that are at least 15 years old or have been allocated for a new markets tax credit under Section 45 of the Internal Revenue Code. (The "new markets" program has been described as a federal program to attract new private investment capital to underserved markets and low-income communities.)

Under the act currently a "qualified facility" located in a special district created by a local unit of government is exempt from standard property taxes (although not the land or personal property). Instead the facility is subject to a specific tax that, generally speaking, bases the tax liability of the facility on its value prior to rehabilitation. (The specific tax is known as the commercial rehabilitation tax.) The property tax exemption can last for one to ten years, as determined by the local unit of government. For a facility to be eligible for an exemption, the rehabilitation could not begin more than six months before the applicant files the application for the exemption certificate. The abatement does not apply to local school operating taxes or the State Education Tax.

The tax exemption requires approval by the local unit of government, which is required to notify the local assessor and the legislative body of all taxing units affected of any application for an exemption, and then hold a public hearing on the issue. The tax exemption also requires the approval of the State Tax Commission. The Commercial Rehabilitation Act is very similar in outline to the Obsolete Property Rehabilitation Act, which applies to blighted, functionally obsolete, and contaminated properties in core communities.

MCL 207.842

FISCAL IMPACT:

For eligible properties, the bill would freeze real property taxes on the building itself at its pre-improvement level for a period of 1 to 10 years. The improvements on the property would be taxed at a significantly lower property tax rate, since only the 6 mill State Education Tax and the local school operating millage would be levied and all other taxes abated for the period granted by the local unit of government. However, land and personal property would continue to be taxed at the prevailing commercial millage rates. The abated millage on the improvements would represent a decrease in local property tax revenue.

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