Legislative Analysis

Mitchell Bean, Director
Phone: (517) 373-8080
http://www.house.mi.gov/hfa

LIMIT ON TAXABLE VALUE

House Joint Resolution III (Substitute H-1)
Sponsor: Rep. Richard LeBlanc
Committee: Tax Policy (Discharged)

Complete to 10-2-08

A SUMMARY OF HOUSE JOINT RESOLUTION III AS PASSED BY THE HOUSE

The joint resolution would amend Section 3 of Article IX of the State Constitution to specify for taxes levied after 2010, that:

(1) If a property's assessed value has increased by less than both inflation ("the general price level") and five percent, the property's taxable value in the immediately succeeding year would increase by that same percentage increase in assessed value.

(2) If a property's assessed value has decreased, the property's taxable value in the immediately succeeding year would not increase.

The constitutional amendment would require the Legislature to put those provisions into statute. HJR III requires the proposed amendment to be put before the voters at the next general election.

[Since the imposition of a cap on property assessments with the passage of Proposal A in 1994, property taxes have been based on "taxable value" rather than state equalized value or assessed value. The SEV of a parcel of property is supposed to be set at 50 percent of market value. However, the value of property for tax purposes ("taxable value") cannot increase from one year to the next by more than the greater of inflation or five percent. Once property is sold, the taxable value "pops up" to the assessed value. Over time, the spread between assessed value and taxable value grows, assuming property values are increasing faster than inflation.

Currently, with the decline in property values, it is possible for the taxable value of property to continue to increase while the assessed value decreases in cases where property has been under the same ownership for a significant length of time. Because taxable value cannot exceed SEV, taxable value can also decrease if SEV declines by a substantial amount, particularly when property owners are relatively new owners.

HJR III would amend the State Constitution to specify that if the assessed value (based on market value) decreases, the taxable value could not increase. It also would limit increases in taxable value when assessed value increases to the lesser of the increase in assessed value, inflation, or five percent.

FISCAL IMPACT:

This fiscal impact of this resolution would depend primarily on the housing/real estate market conditions on the local and statewide level. In an expanding real estate market, statewide taxable value increases approximately 5% per year. However, recently many local units have had either flat or declining taxable value changes that result from the declining property values. Statewide taxable value increased 1.7% in 2008, which is a significant slowdown from previous years.

The House Passed version of HJR III would become effective in 2011. At the State level, the State Education Tax or SET (all of which is earmarked to the School Aid Fund) would be reduced by an estimated $19 million in FY 2011.

In FY 2012, the total state impact would be a reduction of $40 million -- an increase in the General Fund/General Purpose (GF/GP) of about $14 million and a decrease in the School Aid Fund (SAF) of about $55 million.

The GF/GP impact is due to a reduced level of homestead property tax credits, which would reduce income tax refunds.

The SAF impact consists of a SET reduction of $38 million and increased spending from the SAF of $17 million due to the reimbursement of the 18-mill local school operating revenue.

The local government impact would be an estimated reduction of $86 million in property tax revenue for CY 2011.

Legislative Analyst: Chris Couch
Fiscal Analyst: Rebecca Ross
Jim Stansell
