Legislative Analysis

HOUSE FISCAL AGENCY
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NEW LIMIT ON TAXABLE VALUE INCREASES

House Joint Resolution B
Committee: Tax Policy

House Bill 4135
1st Committee: Government Operations
2nd Committee: Tax Policy

Sponsor: Rep. Brian Calley

Complete to 2-25-09

A SUMMARY OF HOUSE JOINT RESOLUTION "B" AND HOUSE BILL 4135 AS INTRODUCED 1-22-09

House Joint Resolution B would amend Section 3 of Article IX of the State Constitution to specify that for taxes levied after 2009, if a property's assessed value increased from one year to the next by less than both inflation ("the general price level") and five percent, or if the assessed value decreased, then the property's taxable value would be frozen.

In other words, a property's ***taxable value*** could not increase unless its ***assessed value*** (or SEV) increased by at least the rate of inflation or five percent, whichever is less.

The constitutional amendment, if approved by voters, would require the Legislature to put those provisions into statute. HJR B requires the proposed constitutional amendment to be put before the voters at the next general election (November 2010).

House Bill 4135 would amend the General Property Tax Act (MCL 211.27a) with the aim of putting the same provisions into statute. It could not take effect unless HJR B became part of the State Constitution.

Taxable value is the factor that determines how much a property owner pays in property taxes (taxable value times the tax rate). ***Assessed value or state equalized value (SEV)*** is based on the property's market value and is supposed to equal 50 percent of market value. Currently, the taxable value of a parcel of property held by the same owner cannot increase from one year to the next by more than the greater of the rate of inflation or five percent. This is known as the assessment cap. (When property is sold, with some exceptions, the cap comes off and taxable value "pops up" to the SEV.)

The assessment cap, over time, can lead to the taxable value being far lower than the SEV on a parcel of property if a homeowner stays in the home. That gap between the two values also means, however, that taxable value can increase from one year to the next by a larger percentage than the increase in SEV, and it means that taxable value can increase even in a year when the market-based SEV has decreased. (But taxable value can never exceed SEV.)

HJR B would amend the State Constitution to specify that taxable value could not increase unless assessed value increased by at least the rate of inflation or five percent. House Bill 4135 would put the same provisions into the General Property Tax Act.

(Thus, under these amendments, in a year when inflation is four percent, if SEV increased by ten percent, taxable value would increase by four percent (the current cap); if SEV increased by three percent, taxable value would not increase but would remain the same, and if SEV declined, taxable value could not increase but would remain the same.)

FISCAL IMPACT:

House Joint Resolution B and House Bill 4135 would reduce State Education Tax revenue and local property tax revenue (including the local 18-mill non-homestead assessment earmarked to local schools) by an unknown amount.

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