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BILL ANALYSIS

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Senate Bill 141 (Substitute S-1 as passed by the Senate)
Senate Bill 282 (Substitute S-1 as passed by the Senate)
Sponsor: Senator Dennis Olshove (S.B. 141)
Senator Alan Sanborn (S.B. 282)
Committee: Finance

Date Completed: 5-29-09

RATIONALE

Under the General Property Tax Act, a principal residence is exempt from the tax levied by a school district for school operating purposes to the extent provided under the Revised School Code. To claim this exemption, an owner must file with the local tax collecting unit an affidavit stating that he or she owns and occupies the property as a principal residence. If a property owner is eligible for and claims an exemption for his or her current principal residence, for up to three tax years he or she may retain an exemption on property previously exempt as his or her principal residence. In this case, the property must be for sale and may not be occupied, leased, or used for any business or commercial purpose. Otherwise, when exempted property is no longer used as a principal residence, the owner is required to rescind the claim of exemption. In some situations, often due to health conditions, a homeowner is not living in the property that is exempt as his or her principal residence but does not wish to sell the property. This may occur, for example, when the owner is in an assisted living facility or is being cared for by relatives in their home. It has been suggested that homeowners should be allowed to retain their principal residence exemption under these circumstances.

CONTENT

The bills would amend the General Property Tax Act to allow a property owner to retain an exemption for property previously exempt as his or her principal residence if the owner were absent from the residence while under the care of a relative or were residing in a nursing home, home for the aged, or other specified facility. In either case, the property could not be occupied, leased, or used for any business or commercial purpose.

Senate Bill 141 (S-1) would apply to a property owner who was absent from his or her principal residence while under the care of his or her mother, father, sister, brother, spouse, child, stepchild, adopted child, grandchild, step-grandchild, or adopted grandchild. The owner could not claim a principal residence exemption for any other property, and would have to file the affidavit required by the Act.

Senate Bill 282 (S-1) would apply to a property owner who was residing in a life care facility registered under the Living Care Disclosure Act or in an adult foster care facility, home for the aged, nursing home, independent senior apartment, or housing with services establishment. By May 1, the owner would have to file with the local tax collecting unit a conditional rescission form prescribed by the Department of Treasury.

If a property owner were living in a registered life care facility, he or she could either claim a principal residence exemption for that facility as provided in the General Property Tax Act, or retain an exemption on property previously exempt as his or her principal residence as described above.

MCL 211.7cc

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

There are situations in which a person does not live in his or her home but is not prepared to sell it. If an illness or physical condition prevents someone from living on his or her own, for example, the person might be cared for in the home of a relative or might enter an assisted living facility. Alternatively, an elderly person might live in a nursing home, a home for the aged, or another type of facility where various services are provided. In some cases, this living arrangement is considered temporary, particularly if the person has a condition that is expected to improve, although sometimes it is not known whether or when the person will be able to return home. In these situations, the person may not be able or willing to sell his or her home, but might lose the principal residence exemption because he or she is not occupying the property.

According to Department of Treasury guidelines, if a person is in a nursing home but maintains a home, he or she may continue to claim the exemption as long as the home is not rented. Some local assessors and homeowners might not be aware of this policy, however. In addition, if a person moves to an assisted living facility and does not expect to return to his or her home, the exemption is no longer available, under Treasury's guidelines. As a result, some individuals who are not occupying their homes, but not renting them or claiming a principal residence exemption on other property, are in danger of losing their exemption from school operating taxes and being subjected to higher tax bills.

The bills would address this situation by allowing homeowners to retain their principal residence exemption under the circumstances described in the legislation.

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bills would reduce local property tax revenue and increase School Aid Fund expenditures by an unknown amount, depending upon the specific characteristics of property affected by the bills. For a home with a taxable value of $50,000, the bills would reduce local school property taxes and increase School Aid Fund expenditures by $900. Current Michigan Department of Treasury guidelines allow homeowners who are not residing in their home, particularly due to health reasons, to maintain an exemption under certain circumstances, although frequently these circumstances are not met if there is no intent to return home or the home is rented. It is unknown how many properties would retain principal residence status under the conditions specified in the bills, or the taxable value of those properties.

Because of current policy, any fiscal impact from Senate Bill 141 (S-1) would likely be negligible.

Nationally, approximately 80% of individuals age 65 and older own their home. Without respect to age, Michigan homeownership rates are above the national average. Michigan's over-65 population totals approximately 1.3 million, of which approximately 40,000 reside in assisted living facilities. It is not known what percentage of those residing in assisted living facilities own a home, or would retain their home under Senate Bill 282 (S-1). If 15% of those residents retained their home and claimed the exemption under this bill, and the taxable value of those homes averaged $50,000, the bill would reduce local school property taxes, and increase School Aid Fund expenditures, by $5.4 million per year.

Fiscal Analyst: David Zin