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BILL ANALYSIS

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Senate Bill 283 (Substitute S-1 as passed by the Senate)
Sponsor: Senator Ron Jelinek
Committee: Finance

Date Completed: 11-9-09

RATIONALE

Some charitable organizations work to increase home ownership in Michigan by purchasing land and building houses, or rebuilding dilapidated houses, that will be sold to families who otherwise could not afford to buy one. Typically, a home is sold for the cost of the land and building materials, and the purchaser is required to invest a certain amount of "sweat equity", providing labor on the home he or she will buy and others being built by the organization. Upon the sale of the home, the purchaser becomes liable for mortgage payments and takes over the responsibility for paying property taxes. In most cases, the property taxes evidently reflect the amount paid for a home. In some cases, however, the property taxes are based on a higher assessment that reflects the market value of similar housing.

Under Michigan law, when property is transferred, it must be taxed upon its State equalized valuation, which is 50% of the property's true cash value. The General Property Tax Act states that the purchase price paid is *not* the "presumptive true cash value". Instead, assessors are required to determine property values according to the valuation of comparable property in the region.

In order to keep property taxes affordable for low-income families who buy homes from charitable organizations, it has been suggested that assessments should be based on the purchase price of those houses.

CONTENT

The bill would amend the General Property Tax Act to specify that the purchase price paid in a transfer of eligible nonprofit housing property from a charitable nonprofit housing organization to a low-income person would be the presumptive true cash value of the property transferred. This would apply to transfers occurring after December 31, 2008.

The Act states that the purchase price paid in a transfer of property is not the presumptive true cash value of the property transferred. The bill would make an exception to this, as described above.

In the year following the year in which the transfer took place and each subsequent year, the taxable value of the eligible nonprofit housing property would have to be adjusted as provided in Section 27a. (Under that section, the taxable value of a parcel of property is the lesser of 1) its current State equalized valuation, or 2) its taxable value in the preceding year minus any losses, multiplied by the lesser of 1.05 or the inflation rate, plus all additions. Upon a transfer of ownership, the property's taxable value for the year following the year of transfer is the property's State equalized valuation for the year following the transfer.)

As used in the current provision, "purchase price" means the total consideration agreed to in an arms-length transaction and not at a forced sale paid by the purchaser of the property. This definition also would apply to the provision in the bill.

The bill would define "charitable nonprofit housing organization" as a charitable nonprofit organization whose primary purpose is the construction or renovation of residential housing for conveyance to a low-income person. "Eligible nonprofit housing property" would mean property owned by a charitable nonprofit housing organization that intends to transfer ownership of the property to a low-income person after construction or renovation of the property is completed.

"Low-income person" would mean a person with a family income of not more than 60% of the statewide median gross income who is eligible to participate in the charitable nonprofit housing organization's program based on criteria established by the organization.

(The Act defines "true cash value" as the usual selling price at the place where the property to which the term is applied is at the time of assessment, being the price that could be obtained for the property at private sale, and not at auction sale except as otherwise provided, or at forced sale.)

MCL 211.27

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

Habitat for Humanity is a good example of a charitable nonprofit organization that provides housing to low-income individuals. Rather than giving property away, Habitat for Humanity offers a homeownership opportunity to families who cannot obtain conventional financing: commonly, those whose income is about 50% of an area's median income. Because Habitat uses donated or low-cost land, material, and labor to build houses, mortgage payments are kept affordable. Families are selected based on their level of need, willingness to perform sweat equity hours, and ability to repay the loan. Thus, the organization makes an effort to ensure that the buyers are in a position to afford their home, including the property taxes on it.

In a small number of cases, families find out after buying a home that their property taxes are based not on its purchase price, but on the higher market value of similar homes in the neighborhood, according to the local assessor's determination. When there is a large discrepancy between the purchase price and comparable values, the property taxes may be too high for the residents to pay, derailing efforts to get low-income families into decent, affordable homes of their own.

The bill would help to increase homeownership in Michigan by ensuring that property taxes were based on the purchase price of a house, in the case of a home sold to a low-income person by a charitable nonprofit housing organization. Knowing the amount of property taxes in advance would enable the organization to select a buyer could afford the home.

Opposing Argument

Assessors should continue to use a consistent method of assessing real property, instead of being required to give special treatment to a particular group of home-buyers, especially when it is not known how this would affect the overall property tax base. In addition, residents already may take the homestead property tax credit against their income taxes.

Opposing Argument

The proposed definition of "low-income person" is based on statewide median gross income, making it inconsistent with other sections of State law, which use Federal poverty guidelines. In the General Property Tax Act, for example, Section 7u provides for a property tax exemption for people in poverty, and Section 78h allows tax-delinquent property to be withheld from a foreclosure petition due to poverty.

Response: The bill would be consistent with the Section 7kk of the Act, which allows a local governing body to exempt from property taxes, for up to two years, housing owned by a charitable nonprofit housing organization that intends to transfer the property to a low-income person. The definition of "low-income person" in that section refers to a person with a family income of not more than 80% of the statewide median gross income.

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would reduce State and local property tax revenue by between an estimated $0.1 million and $0.2 million in the first year the bill was effective. However, the effect of the bill would cumulate as long as affected properties were not sold. As a result, within five years, the bill would lower State and local property tax revenue by approximately $1.0 million. The actual amount of reduced revenue in any given year would depend on the specific characteristics of the affected properties, including the applicable tax rates and the sales price of affected properties relative to their market value.

Most residents of affected properties are likely eligible to receive a homestead property tax credit, which is given for the portion of property taxes (up to $1,200) that exceed 3.5% of household income. Based on average values for affected properties and average homestead property tax rates, the taxpayers would likely qualify for property tax credits averaging between $400 and $1,200 per year. To the extent that affected property owners would receive less in credits as a result of the bill, income tax revenue could be higher. Furthermore, to the extent that homestead property tax credits were reduced, it would be a dollar-for-dollar offset for the lower property taxes, resulting in no net effect on property owners, although local and State property tax revenue would still be reduced.

Fiscal Analyst: David Zin