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BILL ANALYSIS

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House Bill 5786 (Substitute H-1 as reported without amendment)
Sponsor: Representative Bill Caul
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 6-15-10

RATIONALE

Habitat for Humanity is a well known nonprofit organization, operated by local affiliates, whose mission is to build and renovate affordable housing in partnership with the families who will live in the homes. In addition to monetary donations and governmental funding, the organization is supported by revenue from retail outlets, called ReStores. ReStores receive donations of reusable and surplus building materials and home improvement goods, which are sold to the public. Habitat for Humanity affiliates in Michigan operate 49 ReStores; of these, 27 are owned by the affiliates. Evidently, these stores do not receive the same property tax treatment across the State: While 19 are tax-exempt, the remaining eight are not. Although the General Property Tax Act exempts property that is owned and occupied by a nonprofit charitable institution, apparently some local assessors do not believe that Habitat ReStores qualify for the exemption. To address this, it has been suggested that the Act should provide a specific exemption that would apply to Restores statewide.

CONTENT

The bill would amend the General Property Tax Act to provide a tax exemption for property used in the retail store of a charitable nonprofit housing organization.

Specifically, beginning December 31, 2009, the bill would exempt from the tax real and personal property of a charitable nonprofit housing organization that is used for a retail store operated by the organization and engaged exclusively in the sale of donated items suitable for residential housing purposes, whose proceeds are used for the purposes of the organization.

The bill would define "charitable nonprofit housing organization" as an organization that is not operated for profit and that is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code, whose primary purpose is the construction or renovation of residential housing for conveyance to a low-income person.

"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 a charitable nonprofit housing organization's program based on criteria established by the organization.

"Family income" and "statewide median gross income" would mean those terms as defined in the State Housing Development Authority Act (MCL 125.1411).

Proposed MCL 211.7mm

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

The General Property Tax Act exempts real and personal property that is owned by a nonprofit charitable institution and occupied by it solely for the purposes for which the institution was organized. Although some local tax assessors grant an exemption to Habitat affiliates that own ReStores, other assessors evidently do not believe that the stores are occupied solely for the purposes for which Habitat for Humanity was organized. ReStores are a relatively recent development in the State, and it is apparent that assessors do not have clear guidance on whether the stores qualify for the existing exemption. This can have unexpected and unwelcome consequences for affiliates. According to testimony before the Senate Finance Committee, after one affiliate spent several years investigating the possibility of opening a store, it made an investment in the belief that the property would be tax-exempt, only to discover that the local assessor would not grant an exemption. In that case, the affiliate's first-year tax liability reportedly was more than the average price of its homes.

With monetary donations declining in the current economy, Habitat for Humanity relies increasingly on the proceeds from ReStores' sales to provide decent affordable housing to those in need. Any money spent on taxes reduces the amount available for that purpose and for community investment. According to the president of Habitat for Humanity Michigan, the 49 ReStores in this State generate over $10.0 million in revenue each year and pay $600,000 in sales taxes, and Habitat homeowners pay $6.5 million in property taxes. Exempting all affiliate-owned ReStores from the property tax not only would allow more dollars to be invested in housing construction and rehabilitation, but also would put more money back into the economy in the form of taxes paid by the residents.

Furthermore, supporting ReStores through a property tax exemption would be an environmentally responsible measure. In addition to contributing money to Habitat's housing efforts, ReStores provide a way to keep reusable material out of landfills.

Finally, by providing a statewide property tax exemption for Habitat ReStores, the bill would ensure that they were treated the same as Goodwill and Salvation Army stores, which are exempt from the property tax.

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The legislation would lead to a reduction in local general property tax revenue and State Education Tax revenue. The amount of the potential reduction depends on the number and value of the properties currently subject to these taxes, which are unknown. The State also would potentially incur increased expenditures due to the need to replace lost school operating property taxes.

Fiscal Analyst: Eric Scorsone

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