Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 349 (Substitute S-2 as passed by the Senate) *(as enrolled)*
Sponsor: Senator Dave Hildenbrand
Committee: Finance

Date Completed: 4-2-12

CONTENT

The bill would amend the General Property Tax Act to do the following:

- **Change the deadline for a property owner to file an affidavit claiming the principal residence exemption, and add a second deadline.**
- **Allow a land contract vendor, bank, credit union, or other lending institution to retain the principal residence exemption on foreclosed property.**
- **Require a lending institution that retained the exemption to pay what it otherwise would have paid in school operating taxes, for deposit into the School Aid Fund; and to pay an administrative fee, which the local tax collecting unit would retain.**

Filing Deadline

Under the Act, a principal residence is exempt from the tax levied by a local school district for school operating purposes, which typically means that the property is taxed at the rate of six mills, rather than 24. (Nonexempt property is subject to school operating taxes under Section 1211 of the Revised School Code, which are usually 18 mills, as well as the six-mill State Education Tax.) To claim the exemption, the property owner must file an affidavit with the local tax collecting unit by May 1.

Under the bill, the May 1 filing deadline would apply for taxes levied before January 1, 2012. For taxes levied after December 31, 2011, the filing deadline would be June 1 for the next summer tax levy and all subsequent tax levies, or November 1 for the next winter tax levy and all subsequent tax levies.

Retaining Exemption

The Act requires a homeowner to rescind the claim of exemption within 90 days after the exempt property is no longer used as his or her principal residence. An owner may retain an exemption for up to three years, however, by filing a conditional rescission form with the local tax collecting unit if the property is for sale and is not occupied, leased, or used for any business or commercial purpose.

Under the bill, beginning in the 2012 tax year, if a land contract vendor, bank, credit union, or other lending institution owned property as a result of foreclosing on it, and the property had been exempt as a principal residence immediately before the foreclosure, the land contract vendor, bank, credit union, or lending institution could retain the exemption. The property would have to be for sale and could not be occupied, could not be leased to anyone except the person who claimed the principal residence exemption before the foreclosure, and could not be used for any business or commercial purpose. The land contract vendor, bank, credit union, or other lending institution could claim the exemption by filing a conditional rescission form with the local tax collecting unit within the time period prescribed for filing a claim of exemption.

The land contract vendor, bank, credit union, or other lending institution would have to pay an amount equal to what it would have paid under Section 1211 of the Revised School Code if it had not retained the exemption. The payment would have to be collected by the local tax collecting unit at the same time and in the same manner as taxes collected under the General Property Tax Act, and would have to be distributed to the Department of Treasury for deposit into the State School Aid Fund.

The land contract vendor, bank, credit union, or other lending institution also would have to pay an administration fee equal to the property tax administration fee imposed under Section 44 of the Act. (That section allows a local tax collecting unit to add a fee of up to 1% of the total tax bill for taxes paid before February 15 of the following year, and allows additional amounts for delinquent taxes.) The local tax collecting unit would retain the fee.

If the land contract vendor, bank, credit union, or other lending institution transferred ownership of the property, it would have to rescind the exemption and notify the treasurer of the local tax collecting unit of the transfer.

If the land contract vendor, bank, credit union, or other lending institution failed to make a required payment, the local tax collecting unit would have to deny the conditional rescission. The denial would be retroactive and effective on December 31 of the preceding year.

If the local tax collecting unit denied a conditional rescission, it would have to remove the exemption, and any additional taxes, penalties, and interest would have to be collected as provided in the Act.

MCL 211.7cc Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill's provisions regarding granting an exemption for certain foreclosed properties would affect both State and local revenue and expenditures by an unknown amount depending on the number of properties affected and the specific characteristics of those properties. These provisions would increase School Aid Fund revenue and the demands on School Aid Fund expenditures by equal amounts. Local school district revenue would be reduced but School Aid Fund expenditures would increase in order to maintain per-pupil funding.

The bill's provisions altering the filing date for obtaining an exemption would increase school aid costs by an unknown and potentially significant amount, depending on the number of new exemption certificates filed (as a result of home sales, new construction, changes in living arrangements, the locations of affected properties, etc.). Local school districts would experience a loss of locally raised revenue, increasing demands on the School Aid Fund in order to meet per-pupil funding guarantees. Unless additional revenue were directed to the School Aid Fund to offset the increased demands, the bill would decrease overall funds available to schools statewide.

Fiscal Analyst: David Zin

S1112\s349sb.