



Senate Fiscal Agency
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BILL



ANALYSIS

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Senate Bill 862 (Substitute S-4 as passed by the Senate)
Sponsor: Senator Bruce Caswell
Committee: Finance

Date Completed: 9-4-12

RATIONALE

Under the General Property Tax Act, qualified agricultural property is exempt from the tax levied by a local school district for school operating purposes, which is typically 18 mills. Qualified agricultural property includes unoccupied property and related buildings classified as agricultural. To be classified as agricultural, property must be used at least partially for agricultural operations, such as farming, dairying, raising livestock, or boarding horses. Evidently, in some cases, assessors are classifying parcels as residential, and subject to the 18-mill school operating tax, if they are adjacent to agricultural property but are not being used in agricultural operations. This may occur, for example, if a parcel is wooded land or a vacant buffer zone. It has been suggested that, in these situations, the parcels adjacent to agricultural property should have the same classification.

CONTENT

The bill would amend the General Property Tax Act to provide that if a parcel of real property were classified as agricultural real property and were engaged in agricultural operations, any contiguous property owned by the same taxpayer would have to be classified as agricultural real property if the contiguous property were a vacant parcel, a wooded parcel, or a parcel on which was located one or more outbuildings that comprised more than 50% of the taxable value of all buildings on that parcel. The bill expresses a legislative intent that, if these criteria were met, the parcel would be classified as agricultural real property even if the contiguous parcels were located in different local tax collecting units.

The bill specifies that contiguity would not be broken by a boundary between local tax collecting units, a section boundary, a road, or a right-of-way. Contiguity also would not be broken by property purchased or taken under condemnation proceedings by a public utility for power transmission lines if the two parcels separated by the purchased or condemned property were a single parcel before the sale or condemnation.

The bill would define "outbuilding" as a building or other structure primarily used for agricultural operations.

MCL 211.34c

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

As described above, the bill would address situations in which vacant or wooded parcels were adjacent to property used in agricultural operations. If the parcels met the proposed criteria, they would be classified as agricultural and exempt from taxes levied for school operating purposes. The bill also would apply to adjacent parcels that contained outbuildings, such as barns, as long as the taxable value of the outbuildings represented more than 50% of the taxable value of all buildings on the parcels. This would prevent a landowner from converting a barn into a residence, for example, and retaining the agricultural classification.

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would have a fiscal impact of an unknown magnitude, although the most likely impact would be between approximately \$10.0 million and \$20.0 million per year. The bill would reduce revenue to local school districts, but that reduction would be offset by an equal increase in School Aid Fund expenditures in order to maintain per-pupil funding guarantees, assuming School Aid Fund appropriations were increased to account for the change.

Fiscal Analyst: David Zin

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.