



Senate Fiscal Agency
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BILL



ANALYSIS

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Senate Bill 862 (as enacted)
Sponsor: Senator Bruce Caswell
Senate Committee: Finance
House Committee: Tax Policy

PUBLIC ACT 368 of 2012

Date Completed: 4-4-13

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 have classified parcels as residential, and subject to the 18-mill school operating tax, if they were adjacent to agricultural property but not being used in agricultural operations. This may occur, for example, if a parcel is wooded land or a vacant buffer zone. It was suggested that, in these situations, the parcels adjacent to agricultural property should have the same classification.

CONTENT

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

The bill provides that, for these purposes, contiguity requires the parcel classified as agricultural real property by reason of its agriculture use and the vacant parcel, wooded parcel, or parcel on which one or more agricultural outbuildings are located, to be immediately adjacent to each other, without intervening parcels that do not qualify for classification as agricultural real property based on their actual agricultural use.

The bill specifies that contiguity is not broken by a boundary between local tax collecting units, a section boundary, a road, or a right-of-way. Contiguity also is not 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 defines "outbuilding" as a building or other structure primarily used for agricultural operations.

The bill took effect on December 14, 2012.

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 addresses situations in which vacant or wooded parcels are adjacent to property used in agricultural

operations. If the parcels meet the bill's criteria, they will be classified as agricultural and exempt from taxes levied for school operating purposes. The bill also applies to adjacent parcels that contain outbuildings, such as barns, as long as the taxable value of the outbuildings represents more than 50% of the taxable value of all buildings on the parcels. This will 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 will have a fiscal impact of an unknown magnitude, although the most likely impact will be between approximately \$10.0 million and \$20.0 million per year. The bill will reduce revenue to local school districts, but that reduction will be offset by an equal increase in School Aid Fund expenditures in order to maintain per-pupil funding guarantees, assuming School Aid Fund appropriations are 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.