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BILL ANALYSIS

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Senate Bill 990 (Substitute S-2 as reported) *(as enrolled)*
Sponsor: Senator Bruce Caswell
Committee: Finance

Date Completed: 5-17-12

## RATIONALE

The General Property Tax Act exempts an individual's principal residence from the tax levied by a school district for school operating purposes (typically 18 mills), to the extent provided in the Revised School Code. To claim the exemption, the homeowner must file with the local tax collecting unit an affidavit stating that he or she owns and occupies the property as a principal residence. When the property is no longer used as a principal residence, the owner is required to rescind the claim of exemption, although an owner may retain the exemption for up to three years if his or her house is for sale, is unoccupied, is not leased, and is not used for a business or commercial purpose. In some situations, however, a homeowner is not living in his or her house but does not wish to sell it. This might occur if the owner moves into a nursing home or assisted living facility but intends to return to his or her home. Some people believe that homeowners should be allowed to retain their principal residence exemption under these circumstances.

Another issue related to the principal residence exemption involves property that is contiguous to a dwelling. The Act's definition of "principal residence" includes all of an owner's unoccupied property classified as residential or as timber-cutover real property that is adjoining or contiguous to the dwelling. In some cases, this property is located in more than one political subdivision. It is possible that different portions of the property will be treated differently by the local assessors, with one assessor granting the principal residence exemption and another denying it. It has been suggested that contiguity should not be considered broken in these situations.

## CONTENT

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

**-- Allow a homeowner to retain the principal residence exemption after moving into a nursing home or assisted living facility, under certain circumstances.**
**-- Provide that contiguity would not be broken by a boundary between local tax collecting units.**

<u>Owner in Nursing Home or Assisted Living</u>

The bill would allow a person who previously occupied property as his or her principal residence but presently resides in a nursing home or assisted living facility, to retain the exemption if he or she manifested an intent to return to the property by satisfying all of the following conditions:

-- The owner continued to own the property while residing in the nursing home or assisted living facility.
-- The owner had not established a new principal residence.
-- The owner maintained or provided for the maintenance of the property while residing in the nursing home or assisted living facility.

In addition, the property could not be occupied, could not be for sale, could not be leased, and could not be used for any business or commercial purpose.

Contiguity

For residential or timber-cutover property that is contiguous to a dwelling, the Act specifies that contiguity is not broken by a road, a right-of-way, or 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.

Under the bill, contiguity also would not be broken by a boundary between local tax collecting units.

MCL 211.7cc & 211.7dd

## 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

There are situations in which a person does not live in his or her home but is not prepared to sell it. If an illness or physical condition prevents someone from living on his or her own, for example, the person might enter an assisted living facility or a nursing home. In some cases, this living arrangement is considered temporary, particularly if the person has a condition that is expected to improve, although it might not be known whether or when the person will be able to return home. In these cases, the person may not be willing to sell his or her home, but might lose the principal residence exemption because he or she is not occupying the property.

According to Department of Treasury guidelines, if a person is in a nursing home or assisted living facility but maintains a home, he or she may continue to claim the exemption as long as the home is not rented and the person intends to return to it. Some local assessors and homeowners might not be aware of this policy, however. As a result, some individuals who are not occupying their homes, but not renting them or claiming a principal residence exemption on other property, are in danger of being denied their exemption from school operating taxes and having to pay higher tax bills. The bill would address this situation by allowing homeowners to retain their principal residence exemption under the circumstances described in the legislation.

**Response:** As originally introduced, the bill would have allowed a home to be occupied by the owner's son, daughter, grandson, or granddaughter, but the substitute bill would require the home to be entirely unoccupied. Since being unoccupied changes the insurability of property, a person might incur an uninsured loss if he or she did not update his or her homeowner's insurance policy before entering a nursing home or assisted living facility.

### Supporting Argument

The bill would make it clear that boundaries between political subdivisions would not break contiguity, in situations in which residential land or timber-cutover property is contiguous to a dwelling but the entire parcel is located in more than one local unit. For example, the dwelling and a portion of the property might be in Township A, while the remainder of the homeowner's land extends into Township B. The bill would ensure that the assessor in Township B did not subject that portion of the property to school operating taxes, while the portion in Township A received the principal residence exemption.

Legislative Analyst: Suzanne Lowe

## FISCAL IMPACT

The bill would have a negligible impact on State and local revenue. The changes largely would codify existing Department of Treasury policy and guidance on administration of the property tax and the principal residence exemption. The only impact would reflect changes where a local unit was not following that guidance. In those cases, 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.

Fiscal Analyst: David Zin