Legislative Analysis

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PROPERTY TAX EXEMPTION: NONPROFIT ECONOMIC DEVELOPMENT GROUPS

Senate Bill 536 (Substitute S-3)
Sponsor: Sen. John Proos
House Committee: Tax Policy
Senate Committee: Finance

Complete to 4-24-14

A SUMMARY OF SENATE BILL 536 AS PASSED BY THE SENATE 12-11-13

Senate Bill 536 would amend the General Property Tax Act, 1893 PA 206, to permit local tax collecting units to exempt from the collection of taxes under the act "specifically identified" real and personal property owned by a charitable nonprofit organization whose primary purpose is to provide for the economic development of real property or the combination of real property parcels for economic development purposes. Such an organization would be referred to as an "eligible economic development group."

The exemption would be in effect for five years, with the local tax collecting unit permitted to extend the exemption for an additional two years upon adoption of a resolution, if it finds that the group is making "adequate progress" in developing the property or in combining parcels for economic development purposes.

Before the local tax collecting unit could adopt the initial resolution exempting an eligible economic group from real and personal taxes, it would have to provide written notice to its assessor and the legislative body for each taxing unit that levies ad valorem property taxes in the local tax collecting unit, as well as an opportunity for a hearing on the exemption. Once approved, the resolution would have to be filed with the State Tax Commission, the state treasurer, and all affected taxing units.

The state treasurer would have to approve the resolution upon finding that the exemption is necessary to reduce unemployment, promote economic growth, and increase capital investment, following a determination by the State Tax Commission that the property is owned by the eligible economic development group. (The State Tax Commission would have 60 days from the time the resolution is adopted to make that determination.)

However, counties could adopt a resolution electing not to have any of its mills exempted; that is, a county could opt out. This resolution would have to be filed with the State Tax Commission, state treasurer, and the local tax collecting unit.

Finally, the bill would require the State Tax Commission to provide an annual report to the Legislature on the total number of groups that have received the exemption, where the exempted property is located, and the total dollar amount of foregone tax revenue.

FISCAL IMPACT:

As written, the bill could reduce state and local property tax revenue by an unknown amount. Losses would accrue to the state though lost State Education Tax revenues, as well as through increased School Aid Fund expenditures if the local impact causes per-pupil funding to fall below guaranteed levels.

Revenue to local unit tax collecting units and other taxing units would also be reduced by an unknown amount. Counties would, however, be permitted to exclude their tax mills from the exemption established by the bill. The total amount of lost revenue associated with this bill cannot be estimated, since the properties affected and their specific characteristics cannot be known in advance. The amount of lost revenue could be significant, because there are no limits placed on the value of the exemption or the number of exemptions, and because there are few specific requirements for granting an exemption.

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