Legislative Analysis

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NONPROFIT HOUSING PROPERTY TAX EXEMPTION

House Bill 5182 as enacted
Public Act 456 of 2014
Sponsor: Rep. Dale W. Zorn
House Committee: Tax Policy
Senate Committee: Finance

Complete to 8-11-17

SUMMARY:

The bill would allow certain residential property owned by a charitable nonprofit housing organization to be exempt from property taxes for up to five years if the property is intended for ultimate occupancy by low-income persons as a principal residence. Currently, such property can be exempt, but only at the option of local units of government. Under the bill, as of December 31, 2014, local approval would not be needed, but approval by the State Tax Commission would be required.

Public Act 612 of 2006 allowed local tax collecting units to exempt certain residential property owned by nonprofits from taxation. Specifically, this exemption applies to single family dwellings or duplexes owned by charitable nonprofit housing organizations ultimately intended to be transferred to persons with a family income of not more than 80% of the statewide median gross income and who meet other qualifying criteria of the charitable organization. The exemption remains in effect for two years, until the property is occupied by a low-income person under a lease agreement, or until a transfer of ownership of the property, whichever occurs first. PA 612 was an amendment to the General Property Tax Act.

House Bill 5182 would amend the General Property Tax Act (MCL 211.7kk) to allow a nonprofit housing organization that owns eligible nonprofit housing property to apply to the State Tax Commission for a property tax exemption. The Department of Treasury would create an application form. Currently, a local unit can choose to exempt such property by resolution; under the bill, the decision would rest with the nonprofit housing organization and State Tax Commission. The State Tax Commission would consult with the State Treasurer and issue an approval or denial within 60 days after receiving the application. It would then send written notice of the decision to the local tax collecting unit and the nonprofit housing organization. The exemption would begin December 31 of the year in which it was granted.

Also, the current exemption is for a maximum of two years. Under the bill, duration would depend on the type of eligible property and certain instances. If the eligible nonprofit housing property was a residential building lot when transferred to the nonprofit housing organization, the exemption would last for a maximum of five years, or until (1) the eligible property is occupied by a low-income person under a lease agreement, or (2) the eligible property is transferred by the nonprofit housing organization. If the eligible nonprofit housing property was <u>not</u> a residential building lot, the exemption would last for a maximum of three years, or until one of the above instances occurred. Additionally, either exemption would be reduced by the number of years that the eligible property was exempt under current law.

The bill also would amend the definition of "eligible nonprofit housing property" so that it would include <u>a residential building lot</u> and <u>a multiunit building with no more than four individual units</u>, in addition to a single family dwelling or duplex, owned by a nonprofit housing organization that intends to transfer ownership to a low-income person for use as that person's principal residence after construction or renovation is completed.

A "residential building lot" would be defined as including real property where there is a structure that will be torn down within one year of transfer to the nonprofit housing organization.

Note: A similar bill last session, House Bill 5333, passed the House but not the Senate. A discussion of that bill can be found on the Michigan Legislature website at: http://www.legislature.mi.gov/(S(21dwhcmyhevj5avs2dlkkzz3))/mileg.aspx?page=getObject&objectName=2012-HB-5333

FISCAL IMPACT:

The bill would reduce property tax revenue at both the state and local level by an unknown amount. Because the number of properties that would qualify, the corresponding taxable values, and the appropriate local millage rates are not known, a fiscal estimate is not possible. The bill would reduce revenue to the School Aid Fund as well as local school funding. Because local funding for schools would decline, expenditures from the School Aid Fund would have to increase to maintain the foundation allowance.

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