Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bill 114 (as reported without amendment)
Sponsor: Senator Vincent Gregory
Committee: Finance

CONTENT

The bill would amend the General Property Tax Act to eliminate the use of occupancy rate decreases in determining the taxable value of property.

Under the law, year-to-year increases in the taxable value of a parcel of property are limited to 5% or the rate of inflation, whichever is lower, as adjusted for additions and losses, until there is a transfer of ownership. The Act defines "additions" and "losses" for the purpose of assessing property and determining its taxable value.

The definition of "losses" includes an adjustment in value, if any, due to a decrease in the property's occupancy rate, to the extent provided by law. The definition of "additions" includes an increase in value attributable to the property's occupancy rate if a loss had been previously allowed because of a decrease in occupancy rate, or if the value of new construction was reduced because of a below-market occupancy rate. (In 2002, however, the Michigan Supreme Court struck down this part of the definition of "additions".)

The bill would limit the use of occupancy rates in the determination of losses to the period before December 31, 2013. The use of occupancy rates in the determination of additions would be limited to the period before December 31, 2001.

MCL 211.34d — Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would generally increase State and local property tax revenue by an unknown amount that would depend on the number of affected taxpayers and the specific characteristics of affected property. The bill would prevent reductions in taxable value that would otherwise occur when occupancy rates declined. The higher value also would become a greater base upon which future increases in taxable value would be computed.

The growth in the taxable value of property from one year to the next is generally restricted to the lesser of a measure of inflation or 5%. Exceptions are made for "additions", which generally represent new construction added to property or other similar acquisitions. In the case of rental property, legislation enacted after the adoption of Proposal A in 1994 included increases in occupancy as additions (and reductions in occupancy as losses). As noted above, the Michigan Supreme Court in 2002 ruled the new definition of "additions" invalid, but did not address the changes to the definition of "losses". The bill would effectively codify the decision regarding additions, and make a reciprocal change regarding losses.

Date Completed: 5-23-13 — Fiscal Analyst: David Zin