

ALTER REAL ESTATE TRANSFER TAX EXEMPTION

Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

House Bill 4173 as introduced
Sponsor: Rep. David C. Maturen
Committee: Tax Policy
Complete to 3-24-15

Analysis available at
<http://www.legislature.mi.gov>

SUMMARY:

The Real Estate Transfer Tax Act imposes, for non-exempt transfers of real property, a tax of \$3.75 for every \$500 of the final sale price (0.75% or three-quarters of one percent). The revenue collected by this tax is deposited in the School Aid Fund (SAF). According to the most recent numbers, total revenue from the real estate transfer tax was \$233.4 million in fiscal year 2013-14. There are many exemptions listed in the act.

House Bill 4173 would amend the act by altering the eligibility requirements for one of the 23 exemptions from the state real estate transfer tax. The bill will essentially allow a homeowner whose principal residence has not increased in value since its purchase to receive an exemption from the real estate transfer tax if the residence was sold for an amount less than or equal to its true cash value.

The primary change made to the act by House Bill 4173 is in Section 6, under subsection (u). Currently, this section allows for an exemption to the state real estate transfer tax if all of the following apply:

- 1) The property qualifies for a Principal Residence Exemption;
- 2) The state equalized value (SEV) of the property is less than or equal to the SEV when the current owner originally purchased the property; and
- 3) The property is not sold at a value other than the true cash value

Currently, if after the exemption is granted, the state treasurer determines that the property was sold for a value other than the true cash value then the entirety of real estate transfer tax will be due, with an additional penalty of 20% of the total tax due.

House Bill 4173 would alter the conditions under which the penalty could be imposed, effectively altering the eligibility requirements. The bill would stipulate that the penalty shall be imposed if the property is sold for "an amount greater than two times the state equalized value." The state equalized value is typically defined as half of the true cash value. As described earlier, the bill will essentially allow a homeowners whose principal residence has not increased in value since its purchase, and who sells that home for an amount less than or equal to its true cash value, to receive an exemption from the real estate transfer tax.

Additional changes to subsection (u), in conjunction with changes made by this bill to Section 3 of the act, stipulate that the bill is intended to be retroactive. If a seller (or the

buyer on behalf of the seller) paid the real estate transfer tax during the four years preceding the effective date of this legislation, and that transaction is now exempt, then the person who paid the tax is entitled to a refund of the total amount paid. This includes both those who paid the penalty and those who now qualify for this exemption.

FISCAL IMPACT:

As written, the bill would reduce School Aid Fund revenues, due to reductions in future collections of the state real estate transfer tax, as well as refunds that the Department of Treasury must pay. An estimate of this reduction cannot be made at this time, since the specific characteristics of the properties involved, such as the state equalized value and the sale price, cannot be known in advance.

Legislative/ Fiscal Analyst: Adam Desrosiers

■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.