

Legislative Analysis



TRANSFER OF RESIDENTIAL PROPERTY BETWEEN LLC AND RELATIVE OF LLC MEMBER

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<http://www.house.mi.gov/hfa>

House Bill 4645 as introduced
Sponsor: Rep. Tim Kelly
Committee: Tax Policy
Complete to 9-15-15

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

SUMMARY:

House Bill 4645 would exempt a transfer of residential real property from the re-setting of taxable value (the "pop-up") in cases where residential property is being transferred between a limited liability company and another party closely related to at least one member of the limited liability company, as long as the residential real property is not used for any commercial purpose following the transfer.

Under the General Property Tax Act, the taxable value of a parcel of property cannot increase from one year to the next by more than the rate of inflation or five percent, whichever is less. However, when there is a transfer of ownership, the assessment of a parcel "pops up" to 50% of the market value (which is referred to as state equalized valuation, or SEV). The act defines when a transfer of ownership has occurred for the purpose of resetting the assessment based on market value, and specifically excludes certain transactions.

As noted above, the bill would expand the persons to whom, or from whom, residential real property may be transferred without subjecting the property to the "pop-up" tax. Specifically, the bill would exempt a transfer of residential real property when the transferor or transferee is a limited liability company, the other party to the transfer is closely related to at least one member of the limited liability company, and the residential real property is not used for any commercial purpose following the transfer.

For purposes of the bill, the other party to the transfer would be "closely related" to a member of the limited liability company if that party and the member are spouses or if that party is the member's or the member's spouse's mother, father, brother, sister, son, daughter, adopted son, adopted daughter, grandson, or granddaughter.

Upon request by the Department of Treasury or the local assessor, the transferee have to furnish proof within 30 days that the transferee meets the requirements of this subdivision. If a transferee fails to comply with a request by the department of treasury or assessor under this subdivision, that transferee is subject to a fine of \$200.

FISCAL IMPACT:

As written, the bill could reduce both state and local tax revenue relative to current law. By leaving the taxable value cap in place on affected properties, the tax base against which

local millages are assessed as well as the 6-mill State Education Tax will grow more slowly under this legislation than under current law. Both of these effects amount to a reduction in local and School Aid Fund (SAF) revenues. The loss of local revenue collected for local schools could increase SAF expenditures (and transfers from the General Fund to the SAF), should funding fall below the per-pupil guarantee.

A fiscal impact cannot be estimated since the revenue loss depends on the number of properties affected, their current and uncapped taxable values, and local millage rates, none of which can be determined in advance.

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