



Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536



Telephone: (517) 373-5383
Fax: (517) 373-1986

Senate Bill 81 (as introduced 2-9-15)
Sponsor: Senator Jack Brandenburg
Committee: Finance

Date Completed: 2-17-15

CONTENT

The bill would amend provisions of the General Property Tax Act under which a bank or other lending institution may retain the principal residence exemption on foreclosed property, to delete requirements that the bank or lending institution pay what it otherwise would have paid in school operating taxes, as well as an administration fee; and to allow the exemption to be retained for two, rather than three, tax years.

Under the Act, a principal residence is exempt from the taxes levied by a local school district for school operating purposes under Section 1211 of the Revised School Code (which typically are 18 mills). To claim the principal residence exemption (PRE), the homeowner must file an affidavit with the local tax collecting unit. The owner must rescind the claim of exemption when the exempt property is no longer used as a principal residence, although he or she may retain it for up to three years under certain circumstances.

The Act also allows a bank, land contract vendor, credit union, or other lending institution (referred to below as a "bank") to retain the PRE on property that the bank owns as a result of a foreclosure or forfeiture of a recorded instrument, if the property had been exempt immediately before the foreclosure. The property must be for sale, must not be occupied by or leased to anyone other than the person who claimed the PRE immediately before the foreclosure or forfeiture, and must not be used for any business or commercial purpose.

The bank may retain the exemption for up to three tax years. The bill would reduce that to two.

If a bank retains the exemption, it must pay an amount equal to the additional amount it would have had to pay under Section 1211 of the Revised School Code if a PRE had not been retained. The payment must be collected by the local tax collecting unit at the same time and in the same manner as taxes are collected under the Act, and must be distributed to the Department of Treasury for deposit into the State School Aid Fund.

In addition, the bank must pay an administration fee equal to the property tax administration fee imposed under Section 44 of the Act. (Section 44 allows a local tax collecting unit to add a fee of up to 1% of the total tax bill for taxes paid before February 15 of the following year, and allows additional amounts for delinquent taxes.)

The bill would delete the requirements that a bank, land contract vendor, credit union, or other lending institution retaining the PRE pay the amount it would have had to pay under Section 1211 of the Revised School Code and pay an administration fee.

MCL 211.7cc

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would reduce School Aid Fund revenue by between approximately \$14.7 million and \$24.5 million in FY 2014-15, depending on the specific characteristics of affected property. If per-pupil funding guarantees or other education spending were lowered as a result, the bill would reduce revenue to local school districts by an unknown amount. The value of property that is currently under foreclosure and that could be affected by the bill is not known, although as of December 2014, Michigan's inventory of foreclosed homes represented 0.6% of the total Michigan housing stock. The estimated impact of the bill assumes that the average taxable value of affected properties varies between \$30,000 and \$50,000. To the extent that the taxable values for affected property are higher, the impact of the bill would be higher, while lower taxable values would reduce the estimated impact of the bill. Similarly, it is unknown what portion of these properties represent properties that are eligible for a principal residence exemption.

Local unit revenue also would be reduced by an unknown amount, due to the loss of administration fee revenue on the affected amounts. Using the range estimated above, the reduction would total between \$100,000 and \$200,000.

Fiscal Analyst: David Zin