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BILL ANALYSIS

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House Bill 4930 (Substitute H-1 as passed by the House)
Sponsor: Representative Aric Nesbitt
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 12-9-15

CONTENT

The bill would amend the General Property Tax Act to exclude from "transfer of ownership" a conveyance of residential property that had been subject to a life estate or life lease retained by the transferor resulting from expiration or termination of that life estate or lease, if the transferor had a specific relation to the transferee, and the property were not used for commercial purposes following the transfer.

Under the Act, the taxable value of a parcel of property (adjusted for additions and losses) may not increase from one year to the next by more than 5% or the increase in the consumer price index, whichever is lower, until there is a transfer of ownership. At that time, the assessment is "uncapped" and the parcel is taxed upon its State equalized valuation (50% of its true cash value). The Act defines "transfer of ownership" for this purpose and identifies transactions that do not constitute a transfer of ownership.

Under the bill, beginning December 31, 2014, "transfer of ownership" would not include a transfer of the portion of residential real property that had been subject to a life estate or life lease retained by the transferor resulting from the expiration or termination of that life estate or life lease, if the transferee were the transferor's or transferor's spouse's mother, father, brother, sister, son, daughter, adopted son, adopted daughter, grandson, or granddaughter, and the property were not used for any commercial purpose after the transfer. Within 30 days, upon request by the Department of Treasury or the assessor, the transferee would have to furnish proof that he or she met these requirements. If the transferee failed to comply with the request, the transferee would be subject to a fine of $200.

The bill would define "commercial purpose" as used in connection with any business or other undertaking intended for profit, but the term would not include the rental of residential real property for a period of less than 15 days in a calendar year.

The proposed exclusion from "transfer of ownership" would be retroactive and would be effective for taxes levied after December 31, 2014.

MCL 211.27a Legislative Analyst: Drew Krogulecki

FISCAL IMPACT

The bill would reduce State School Aid Fund revenue and local revenue by an unknown amount. The proposed exclusion from "transfer of ownership" would prevent property transfers that met the criteria in the bill from resetting the property's taxable value at 50%

of the State equalized value (SEV). For property with taxable value lower than its SEV, this exclusion would result in the continuation of lower taxable and tax revenue than would otherwise be realized. This impact would continue until the property was transferred by a transaction not covered by an exclusion. The amount of revenue reduction would depend on the number of parcels affected, their specific characteristics, and local millage rates. The bill also would increase School Aid Fund spending to the extent it was necessary to replace foregone local school operating millage revenue in order to fund the foundation allowance.

In addition, the bill would provide for assessment of a fine of $200 if a transferee did not comply with a request from the Department of Treasury or an assessor for proof that the transferee met the requirements for the exception. Any fine revenue received by the State would be deposited in the General Fund.

Fiscal Analyst: Elizabeth Pratt