

Legislative Analysis



GENERAL OR LIMITED PARTNERSHIP TRANSFER OF PROPERTY EXEMPT FROM UNCAPPING

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

House Bill 5546 (proposed substitute H-1)

Sponsor: Rep. Larry Inman

Committee: Tax Policy

Complete to 12-18-18

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

SUMMARY:

House Bill 5546 would modify the General Property Tax Act to allow the transfer of residential real property under the ownership of a limited or general partnership to certain specified transferees without subjecting the property to the reset in taxable value to 50% of the State Equalized Value (SEV).

Under the General Property Tax Act and Section 3 of Article IX of the State Constitution of 1963, 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 taxable value of a parcel resets to 50% of the SEV. The act defines when a transfer of ownership has occurred, and when it has not, for the purpose of resetting the taxable value.

The bill would exempt a transfer of residential real property from a limited or general partnership whose partners are all closely related for the entire duration of the partnership if, immediately before the transfer, the transferee is one or more of the closely related partners or is one or more individuals each of whom is closely related to at least one of the partners.

An individual is considered closely related to a partner if the individual and partner are spouses or that individual is the partner's or the partner's spouse's mother, father, brother, sister, son, daughter, adopted son, adopted daughter, grandson, or granddaughter.

To continue to qualify for the exemption, the bill would prohibit the residential real property from being used for any commercial purpose after the transfer.

Upon request by the Department of Treasury or the assessor, the transferee would have to furnish proof that the requirements were met within 45 days or be subject to a fine of \$200.

MCL 211.27a

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, local units would not realize the increase in their property tax base that would have occurred under current law. This

also means that the tax base for the State Education Tax (SET) would grow more slowly under the bill than under current law. Both of these effects would result in a reduction in local and School Aid Fund (SAF) revenues. The bill would increase SAF expenditures to the extent it was necessary to replace foregone local school operating millage revenue in order to fund the foundation allowance. A cost estimate cannot be provided since the cost depends on the number of properties affected, their current taxable value, and the local millage rate, and this information is not available in advance.

Any fine revenue collected under the provisions of the bill would be deposited in the general fund.

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■ 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.