

EXCLUDE ALTERNATIVE ENERGY SYSTEMS FROM TRUE CASH VALUE ASSESSMENT

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House Bill 5680 as introduced
Sponsor: Rep. Tom Barrett
Committee: Tax Policy
Complete to 5-2-18

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

SUMMARY:

House Bill 5680 would amend the General Property Tax Act to add the installation, replacement, or repair of an alternative energy system to a list of normal maintenance activities that are not considered when determining the true cash value of residential property.

Currently under the act, in determining the true cash value of residential property for assessment purposes, assessors cannot consider the increase in true cash value resulting from expenditures for normal repairs, replacement, and maintenance, until the property is sold. The repairs are considered normal maintenance if they are not part of a structural addition or completion. The increase in value attributable to the activities that is known to the assessor is excluded from true cash value but is indicated on the assessment roll.

The act enumerates a list of such maintenance and repair activities. Examples include inside or outside painting, adding gutters or downspouts, and replacing plumbing, furnaces, or hot water heaters.

The bill would add the following to the list of normal maintenance activities: installing, replacing, or repairing an **alternative energy system** with a generating capacity of less than 1 megawatt, for which the energy output does not exceed usage.

Alternative energy system is defined in the Michigan Next Energy Authority Act and means the small-scale generation or release of energy from one of thirteen energy systems, alone or in combination, include photovoltaic and wind energy systems (MCL 207.822).

The bill would also amend a section of the General Property Tax Act that defines the term “additions” for purposes of determining a property’s taxable value under the act and sections 3 and 31 of article IX of the state constitution. Currently under the act, “additions” includes “new construction,” which is property not in existence on the immediately preceding tax day and not replacement construction, and which includes the physical addition of equipment or furnishings, except for normal maintenance activities as described above. The bill would amend this provision to include the installation, replacement, or repair of an alternative energy system among the normal maintenance activities that are excluded from the definitions of “additions” and “new construction” for purposes of determining a property’s taxable value.

MCL 211.27 and 211.34d

FISCAL IMPACT:

The statewide taxable value of solar panel systems with a generating capacity of not more than 1 megawatt is unknown; therefore, the revenue impact for state and local governments is difficult to determine.

To the extent that solar panels were previously classified as residential real property and subject to state and local taxation, the bill would reduce revenues for state and local governments. The provisions of the bill would reduce revenue from the 6-mill state education tax and, in some instances, the 18-mill non-homestead levy earmarked for local schools. Local governments would realize revenue losses in an amount equal to the taxable value of the exempted property multiplied by the local unit's millage rate.

However, in most instances prior to the February 13, 2018 State Tax Commission guidance that classified solar panels as a component of residential real property if they are located on a parcel of residential real property, solar panels were classified as industrial personal property and considered exempt from the 6-mill state education tax and the 18-mill non-homestead levy earmarked for local schools. Despite the State Tax Commission's reclassification of residential solar panels as residential real property, the provisions of the bill would continue to exempt solar panels from these two tax levies by excluding solar panels from the calculation of the true cash value of residential real property.

The classification of solar panels as industrial personal property allowed individuals to claim the small taxpayer exemption under the personal property tax phase-out beginning in 2014. To the extent that an owner of residential real property claimed the small taxpayer exemption for solar panels, a local unit of government would realize no revenue impact. Conversely, if the individual did not claim the small taxpayer exemption, the bill would reduce local revenues by an amount equal to the taxable value of the exempted property multiplied by the local unit's millage rate due to the exclusion of solar panels in determining the true cash value of residential real property. It should be noted that, upon sale of a parcel of residential real property, the value of the solar panels could be used in calculating the true cash value and therefore be considered subject to the 6-mill state education tax, the 18-mill non-homestead levy earmarked for local schools, and any local millage.

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