

HOUSE BILL NO. 6054

August 06, 2020, Introduced by Reps. Warren, Hoadley, Brixie, Kennedy, Koleszar, Hood, Sowerby and Rabhi and referred to the Committee on Government Operations.

A bill to amend 1994 PA 451, entitled
"Natural resources and environmental protection act,"
by amending section 36109 (MCL 324.36109), as amended by 2016 PA
265.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

- 1 Sec. 36109. (1) An owner of farmland and related buildings
- 2 subject to 1 or more development rights agreements under section
- 3 36104 or agricultural conservation easements or purchases of
- 4 development rights under section 36111b or 36206 who is required or



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1 eligible to file a return as an individual or a claimant under the
2 state income tax act may claim a credit against state income tax
3 liability for the amount by which the property taxes on the land
4 and structures used in the farming operation, including the
5 homestead, restricted by the development rights agreements,
6 agricultural conservation easements, or purchases of development
7 rights exceed 3.5% of the household income as defined in section
8 508 of the income tax act of 1967, 1967 PA 281, MCL 206.508,
9 excluding a deduction if taken under section 613 of the internal
10 revenue code of 1986, 26 USC 613. For the purposes of this section,
11 all of the following apply:

12 (a) A partner in a partnership is considered an owner of
13 farmland and related buildings owned by the partnership and covered
14 by a development rights agreement, agricultural conservation
15 easement, or purchase of development rights. A partner is
16 considered to pay a proportion of the property taxes on that
17 property equal to the partner's share of ownership of capital or
18 distributive share of ordinary income as reported by the
19 partnership to the Internal Revenue Service or, if the partnership
20 is not required to report that information to the Internal Revenue
21 Service, as provided in the partnership agreement or, if there is
22 no written partnership agreement, a statement signed by all the
23 partners. A partner claiming a credit under this section based upon
24 the partnership agreement or a statement shall file a copy of the
25 agreement or statement with his or her income tax return. If the
26 agreement or statement is not filed, the department of treasury
27 shall deny the credit. All partners in a partnership claiming the
28 credit allowed under this section shall compute the credit using
29 the same basis for the apportionment of the property taxes.



1 (b) A shareholder of a corporation that has filed a proper
2 election under subchapter S of chapter 1 of subtitle A of the
3 internal revenue code of 1986, 26 USC 1361 to 1379, is considered
4 an owner of farmland and related buildings covered by a development
5 rights agreement that are owned by the corporation. A shareholder
6 is considered to pay a proportion of the property taxes on that
7 property equal to the shareholder's percentage of stock ownership
8 for the tax year as reported by the corporation to the Internal
9 Revenue Service. Except as provided in subsection (8), this
10 subdivision applies to tax years beginning after 1987.

11 (c) Except as otherwise provided in this subdivision, an
12 individual in possession of property for life under a life estate
13 with remainder to another person or holding property under a life
14 lease is considered the owner of that property if it is farmland
15 and related buildings covered by a development rights agreement.
16 Beginning January 1, 1986, if an individual in possession of
17 property for life under a life estate with remainder to another
18 person or holding property under a life lease enters into a written
19 agreement with the person holding the remainder interest in that
20 land and the written agreement apportions the property taxes in the
21 same manner as revenue and expenses, the life lease or life estate
22 holder and the person holding the remainder interest may claim the
23 credit under this act as it is apportioned to them under the
24 written agreement upon filing a copy of the written agreement with
25 the return.

26 (d) If a trust holds farmland and related buildings covered by
27 a development rights agreement and an individual is treated under
28 subpart E of subchapter J of subchapter A of chapter 1 of the
29 internal revenue code of 1986, 26 USC 671 to 679, as the owner of



1 that portion of the trust that includes the farmland and related
2 buildings, that individual is considered the owner of that
3 property.

4 (e) An individual who is the sole beneficiary of a trust that
5 is the result of the death of that individual's spouse is
6 considered the owner of farmland and related buildings covered by a
7 development rights agreement and held by the trust if the trust
8 conforms to all of the following:

9 (i) One hundred percent of the trust income is distributed to
10 the beneficiary in the tax year in which the trust receives the
11 income.

12 (ii) The trust terms do not provide that any portion of the
13 trust is to be paid, set aside, or otherwise used in a manner that
14 would qualify for the deduction allowed by section 642(c) of the
15 internal revenue code of 1986, 26 USC 642.

16 (f) A member in a limited liability company is considered an
17 owner of farmland and related buildings covered by a development
18 rights agreement that are owned by the limited liability company. A
19 member is considered to pay a proportion of the property taxes on
20 that property equal to the member's share of ownership or
21 distributive share of ordinary income as reported by the limited
22 liability company to the Internal Revenue Service.

23 (2) An owner of farmland and related buildings subject to 1 or
24 more development rights agreements under section 36104 or
25 agricultural conservation easements or purchases of development
26 rights under section 36111b or 36206 to whom subsection (1) does
27 not apply may claim a credit under the former single business tax
28 act, 1975 PA 228, or the Michigan business tax act, 2007 PA 36, MCL
29 208.1101 to 208.1601, for the amount by which the property taxes on



1 the land and structures used in farming operations restricted by
2 the development rights agreements, agricultural conservation
3 easements, or purchases of development rights exceed 3.5% of the
4 adjusted business income of the owner as defined in section 36 of
5 the former single business tax act, 1975 PA 228, or the business
6 income tax base of the owner as defined in section 201 of the
7 Michigan business tax act, 2007 PA 36, MCL 208.1201, plus
8 compensation to shareholders not included in adjusted business
9 income or the business income tax base, excluding any deductions if
10 taken under section 613 of the internal revenue code of 1986, 26
11 USC 613. When calculating adjusted business income for tax years
12 beginning before 1987, federal taxable income shall not be less
13 than zero for the purposes of this subsection only. A participant
14 is not eligible to claim a credit and refund against the former
15 single business tax act, 1975 PA 228, or the Michigan business tax
16 act, 2007 PA 36, MCL 208.1101 to 208.1601, unless the participant
17 demonstrates that the participant's agricultural gross receipts of
18 the farming operation exceed 5 times the property taxes on the land
19 for each of 3 out of the 5 tax years immediately preceding the year
20 in which the credit is claimed. This eligibility requirement does
21 not apply to those participants who executed farmland development
22 rights agreements under this part before January 1, 1978. A
23 participant may compare, during the contract period, the average of
24 the most recent 3 years of agricultural gross receipts to property
25 taxes in the first year that the participant entered the program
26 under the present contract in calculating the gross receipts
27 qualification. Once an election is made by the participant to
28 compute the benefit in this manner, all future calculations ~~shall~~
29 **must** be made in the same manner.



(3) If the farmland and related buildings covered by a development rights agreement under section 36104 or an agricultural conservation easement or purchase of development rights under section 36111b or 36206 are owned by more than 1 owner, each owner is allowed to claim a credit under this section based upon that owner's share of the property tax payable on the farmland and related buildings. The department of treasury shall consider the property tax equally apportioned among the owners unless a written agreement signed by all the owners is filed with the return, which agreement apportions the property taxes in the same manner as all other items of revenue and expense. If the property taxes are considered equally apportioned, ~~a husband and wife shall be~~ **spouses are** considered 1 owner, and a person with respect to whom a deduction under section 151 of the internal revenue code of 1986, 26 USC 151, is allowable to another owner of the property ~~shall is~~ not ~~be~~ considered an owner.

(4) A beneficiary of an estate or trust to which subsection (1) does not apply is entitled to the same percentage of the credit provided in this section as that person's percentage of all other distributions by the estate or trust.

(5) If the allowable amount of the credit claimed exceeds the state income tax or the state business tax otherwise due for the tax year or if there is no state income tax or the state business tax due for the tax year, the amount of the claim not used as an offset against the state income tax or the state business tax, after examination and review, shall be approved for payment to the claimant pursuant to 1941 PA 122, MCL 205.1 to 205.31. The total credit allowable under this part and chapter 9 of the income tax act of 1967, 1967 PA 281, MCL 206.501 to 206.532, or the former



1 single business tax act, 1975 PA 228, or the Michigan business tax
2 act, 2007 PA 36, MCL 208.1101 to 208.1601, ~~shall~~**must** not exceed
3 the total property tax due and payable by the claimant in that
4 year. The amount the credit exceeds the property tax due and
5 payable ~~shall~~**must** be deducted from the credit claimed under this
6 part.

7 (6) For purposes of audit, review, determination, appeals,
8 hearings, notices, assessments, and administration relating to the
9 credit program provided by this section, the state income tax act,
10 the former single business tax act, 1975 PA 228, or the Michigan
11 business tax act, 2007 PA 36, MCL 208.1101 to 208.1601, applies
12 according to which tax the credit is claimed against. If an
13 individual is allowed to claim a credit under subsection (1) based
14 upon property owned or held by a partnership, S corporation, or
15 trust, the department of treasury may require that the individual
16 furnish it with a copy of a tax return, or portion of a tax return,
17 and supporting schedules that the partnership, S corporation, or
18 trust files under the internal revenue code.

19 (7) The department of treasury shall account separately for
20 payments under this part and not combine them with other credit
21 programs. A payment made to a claimant for a credit claimed under
22 this part ~~shall~~**must** be issued by 1 or more warrants made out to
23 the county treasurer in each county in which the claimant's
24 property is located and the claimant, unless the claimant specifies
25 on the return that a copy of the receipt showing payment of the
26 property taxes that became a lien in the year for which the credit
27 is claimed, or that became a lien in the year before the year for
28 which the credit is claimed, is attached to the income tax or
29 business tax return filed by the claimant. If the claimant



1 specifies that a copy of the receipt is attached to the return, the
 2 payment ~~shall~~**must** be made directly to the claimant. A warrant made
 3 out to a claimant and a county treasurer ~~shall~~**must** be used first
 4 to pay delinquent property taxes, interest, penalties, and fees on
 5 property restricted by the development rights agreement. If the
 6 warrant exceeds the amount of delinquent taxes, interest,
 7 penalties, and fees, the county treasurer shall remit the excess to
 8 the claimant. If a claimant falsely specifies that the receipt
 9 showing payment of the property taxes is attached to the return and
 10 if the property taxes on the land subject to that development
 11 rights agreement were not paid before the return was filed, all
 12 future payments to that claimant of credits claimed under this act
 13 attributable to that development rights agreement may be made
 14 payable to the county treasurer of the county in which the property
 15 subject to the development rights agreement is located and to that
 16 claimant.

17 (8) For property taxes levied after 1987, a person that was an
 18 S corporation and had entered into a development rights agreement
 19 before January 1, 1989, and paid property taxes on that property,
 20 may claim the credit allowed by this section as an owner eligible
 21 under subsection (2). A subchapter S corporation claiming a credit
 22 as permitted by this subsection for taxes levied in 1988 through
 23 1990 shall claim the credit by filing an amended return under the
 24 former single business tax act, 1975 PA 228. If a subchapter S
 25 corporation files an amended return as permitted by this subsection
 26 and if a shareholder of the subchapter S corporation claimed a
 27 credit under subsection (1)(b) for the same property taxes, the
 28 shareholder shall file an amended return under the state income tax
 29 act. A subchapter S corporation is not entitled to a credit under



1 this subsection until all of its shareholders file the amended
2 returns required by this subsection. The department of treasury
3 shall first apply a credit due to a subchapter S corporation under
4 this subsection to repay credits claimed under this section by the
5 subchapter S corporation's shareholders for property taxes levied
6 in 1988 through 1990 and shall refund any remaining credit to the S
7 corporation. Interest or penalty is not due or payable on an income
8 tax liability resulting from an amended return required by this
9 subsection. A subchapter S corporation electing to claim a credit
10 as an owner eligible under subsection (2) shall not claim a credit
11 under subsection (1) for property taxes levied after 1987.

12 Enacting section 1. This amendatory act does not take effect
13 unless Senate Joint Resolution ____ or House Joint Resolution T
14 (request no. 02690'19) of the 100th Legislature becomes a part of
15 the state constitution of 1963 as provided in section 1 of article
16 XII of the state constitution of 1963.

