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BILL ANALYSIS

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House Bill 5351 (Substitute H-2 as passed by the House)
Sponsor: Representative Steven Johnson
House Committee: Tax Policy
Senate Committee: Committee of the Whole

Date Completed: 12-14-21

## CONTENT

**The bill would amend the General Property Tax Act to increase the value, from $80,000 to $160,000, of personal property for which a taxpayer may claim an exemption under the Act.**

Under Section 9o of the Act, eligible personal property for which an exemption has been properly claimed under the "small taxpayer exemption" is exempt from the collection of taxes under the Act. "Eligible personal property" means property that meets all of the following conditions: 1) is industrial personal property or commercial personal property; 2) the combined true cash value of all industrial personal property and commercial personal property in that local tax collecting unit owned by, leased to, or in the possession of the person claiming an exemption or a related entity on December 31 of the immediately preceding year is less than $80,000; and 3) is not leased to or used by a person that previously owned the property or a person that, directly or indirectly, controls, is controlled by, or is under common control with the person that previously owned the property.

The bill would increase, from $80,000 to $160,000, the true cash value of property that is eligible for the exemption

MCL 211.9o

Legislative Analyst: Jeff Mann

## FISCAL IMPACT

The bill would have a negative fiscal impact on the State and would have an indeterminate, though likely significant, fiscal impact on local units that receive payments from the Local Community Stabilization Authority (LCSA). The bill's increased exemption would affect State and local revenue and expenditure in the following ways: 1) it would reduce local property tax revenue; 2) it would reduce State School Aid Fund revenue from the State Education Tax; 3) it would increase the State cost of the foundation allowance if the foundation allowance were maintained at the same level as absent the bill; and 4) it would change the distribution of reimbursement payments from the LCSA to eligible local governmental units.

In terms of the changed distribution of LCSA payments to local units of government, payments associated with Section 9o (i.e., the small taxpayer exemption) are made before certain other distributions. While the bill would increase the value of property tax exemptions under Section 9o, these changes would not affect the calculation of payments under MCL 123.1357(4)(a)(vi) which covers distributions for the small taxpayer exemption. However, the bill would alter the qualified loss reported by local units and thus change the distribution of payments computed under several other provisions (particularly those under MCL 123.1357(4)(b), (c) and (e)). Whether an individual local unit would receive a larger or smaller total payment under the bill would depend on the circumstances of each unit and how they related to the changes across all units combined. However, the combination of current-law LCSA payments and current-law local property tax revenue would be greater than the combination of LCSA payments and local property tax revenue under the bill, thus representing a net reduction in local unit revenue under the bill.

The magnitude of the net reduction in State and local unit revenue is unknown. Local units received approximately $25.2 million in payments associated with the exemption in Section 9o. The actual cost of increasing the exemption would depend on the distribution of personal property affected by the bill, both across local units and by true cash value amounts. The likely magnitude of the value of the increased exemption could total approximately $50.0 million per year, but the actual distribution of property could result in the actual value being $10.0 million or more above or below the $50.0 million level.

The exemption limit in the Act is per local tax collecting unit. As with the current limit, firms with locations in more than one tax collecting unit could be able to shift their personal property between locations to increase the amount of personal property exempted. It is unknown how many firms would shift personal property between different jurisdiction to take advantage of the increased exemption amounts under the bill. To the degree any shifting occurred, it would increase the cost of the exemption by an unknown and potentially significant amount. Whether as a result of shifting behavior or estimation error, when Section 9o initially was adopted, the estimated LCSA reimbursement for local unit losses under Section 9o was approximately $19.2 million, while the actual value ended up approximately 31% higher than the estimate.

Fiscal Analyst: Ryan Bergan
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