Legislative Analysis

MODIFYING PROPERTY TAX EXEMPTIONS

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House Bill 4033 (H-1) as reported from committee
Sponsor: Rep. Karen Whitsett
Committee: Tax Policy
Complete to 12-13-24

SUMMARY:

House Bill 4033 would amend the General Property Tax Act to allow for extended poverty exemptions without reapplication and to allow local units to exempt ***principal residences*** for certain seniors.

> Generally speaking, a ***principal residence*** is an owner-occupied residence that is the owner's primary residence. The term, for purposes of both the poverty exemption and the proposed senior exemption, also includes qualified agricultural property.

Senior property tax exemption

House Bill 4033 would allow local assessing units to exempt, by resolution, the ***principal residences*** of individuals who are at least 65 years old from the collection of taxes under the General Property Tax Act if the individuals do all of the following:

- Own and occupy the property the exemption is claimed for as a principal residence.
- Meet requirements, if any, that may be established by resolution of the local assessing unit concerning the individual's eligibility for a full or partial exemption based on the maximum income and asset levels of qualified claimants and provide documentation of that income- and asset-level eligibility as may be required by the local unit.
- File a claim affirming the individual's eligibility under the above requirements with the local assessing unit on a form prescribed by the State Tax Commission (STC) and provided by the local assessing unit.
- Produce a valid driver's license or other form of identification if required by the local assessing unit or board of review.
- Produce a deed, land contract, or other evidence of ownership of the property for which an exemption is claimed if required by the local assessing unit or board of review.

An individual claiming an exemption would be required file the claim between January 1 and the day before the last day of the board of review each year.

The filing of a claim as described above would constitute an appearance before the board of review for the purpose of preserving the claimant's right to appeal the board's decision. In addition, the bill provides that an individual's filing a claim for a senior exemption would not preclude them from also appealing the assessment on the property for which that claim is made before the board of review in the same year.

The bill also would empower local boards of review to hear appeals regarding senior exemptions at their July and December meetings.

Extended exemption

A local assessing unit could, by resolution, allow an exempt principal residence to remain exempt without reapplication as long as there has not been a change in ownership or occupancy status of the eligible individual. A local assessing unit could require an individual granted an extended exemption to file with the local unit, in a form and manner prescribed by the STC, a statement affirming the individual's ownership and occupancy of the exempt property.

An individual granted an extended exemption would have to file with the local assessing unit, in a form and manner prescribed by the STC, an affidavit rescinding the exemption within 45 days after the person ceases to own or occupy the principal residence for which the exemption was extended. If they failed to file this recission, they would be subject to repayment of any additional taxes with interest as described below.

Upon discovering that a property is no longer eligible, the assessor would have to remove the exemption from the property and, if the tax roll is in the local tax collecting unit's possession, amend the tax roll to reflect the removal. Within 30 days of the discovery, the local treasury would have to issue a corrected tax bill for any additional taxes plus interest at a rate of 1% a month (or fraction of a month), computed from the date the taxes were last payable without interest.

If the tax roll was in the county treasurer's possession, they would update it and issue a supplemental tax bill in the same manner as described above.

The interest on any taxes owed would begin to accrue again at the same rate 60 days after the date the corrected or supplemental tax bill was issued.

Taxes levied in a corrected or supplemental bill would be returned as delinquent on March 1 of the year immediately succeeding that in which the bill was issued.

Local units that adopted a resolution to allow an extended exemption would be required to develop and implement an audit program that includes, at a minimum, the audit of all information filed by the individual as part of their claim. If a property were determined to be ineligible by an audit, the individual claiming the exemption would be subject to repayment as described above.

The STC would be required to issue a bulletin providing further guidance to local assessing units on the development and implementation of such audit programs.

Poverty exemption without reapplication

The act currently allows local supervisors and boards of review to grant a poverty exemption, equal to a certain percentage of property taxes as determined by the local board, to qualifying owners of principal residences. 2020 PA 253[1] amended the act to allow, upon a resolution of the local assessing unit, an individual that was granted an exemption for the 2019 or 2020 tax years to remain exempt for the 2021, 2022, and 2023 tax years without reapplying annually, as long as there was no change in ownership or occupancy status of the eligible individual. In addition, an individual that was first exempt in the 2021, 2022, or 2023 tax years can remain exempt for up to the three immediately subsequent years as long as the eligible person's

[1] https://www.legislature.mi.gov/Bills/Bill?ObjectName=2020-SB-1234&QueryID=163841648

ownership and occupancy are unchanged and they receive a fixed income solely from specified public assistance not subject to significant annual increases beyond the rate of inflation, such as Social Security.

If an individual no longer qualifies during the extended exemption, they are required to file an affidavit rescinding the exemption within 45 days or be subject to interest on the owed taxes.

The bill would eliminate the time restrictions established in the act for individuals that receive a fixed income solely from specified public assistance. Instead, an individual that qualified for a poverty exemption would be able to continue the exemption without reapplying, as long as there are no changes to their ownership and occupancy and they continue to solely receive the fixed income.

MCL 211.7u and 211.53b and proposed MCL 211.7yy

BRIEF DISCUSSION:

Supporters of the bill testified that property tax foreclosure is among the most common reasons that seniors lose their homes and that the bill would provide a critical program to help avert this.

The H-1 substitute reported from committee is a "conflict substitute" that makes no substantive changes but updates the section of law being amended to include changes made to that section by a recent amendatory act (2023 PA 191). Generally speaking, conflict substitutes resolve potential conflicts between different bills that amend the same section of law. Without a substitute that takes both bills into account, the last bill signed into law would overwrite and undo the changes made by the earlier one.

FISCAL IMPACT:

House Bill 4330 is permissive in nature and would authorize, but not require, a local assessing unit to allow a principal residence of individuals at least 65 years old to be exempt in whole or in part from property taxes. To the extent that the exemption is authorized by a local assessing unit and the exemption is claimed, revenue from the State Education Tax (which is earmarked to the School Aid Fund) and local property taxes would decline. Depending on requirements established by the local unit on income and asset levels, if any, implementing a property tax exemption under the bill could significantly reduce revenues for a local unit of government that chose to adopt the exemption. The more restrictive the income and asset levels, the less significant the anticipated fiscal impact. Michigan currently offers a property tax exemption, in whole or part, for the principal residence of persons who, by reason of poverty, are unable to contribute to public charges if they meet certain conditions.[2]

The bill may also increase state revenue by an unknown amount. Under the individual income tax, the state offers credits against property taxes mainly through the homestead property tax

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[2] See https://www.michigan.gov/taxes/property/exemptions/povertyexemption/poverty-exemption

credit. If individuals pay less in property taxes, they are likely to qualify for a property tax credit under the income tax, which would result in increased general fund revenue.

POSITIONS:

The Michigan State Employee Retirees Association indicated support for the bill. (12-11-24)

The following entities indicated opposition the bill (12-11-24):

- Michigan Assessors Association
- Michigan Municipal League
- Michigan Township Association

Legislative Analyst: Alex Stegbauer
Fiscal Analyst: Ben Gielczyk