

EXEMPT CERTAIN GENERAL OR LIMITED PARTNERSHIP TRANSFERS OF PROPERTY FROM UNCAPPING

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House Bill 4050 as referred to second committee

Sponsor: Rep. Larry Inman

1st Committee: Local Government and Municipal Finance

2nd Committee: Ways and Means

Complete to 4-1-20

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

BRIEF SUMMARY: House Bill 4050 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).

FISCAL IMPACT: As written, the bill could reduce both state and local tax revenue relative to current law. See *Fiscal Information*, below, for further discussion.

THE APPARENT PROBLEM:

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 5%, 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 certain specified transfers.

THE CONTENT OF THE BILL:

House Bill 4050 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 closely related to at least one of the partners, and if the residential real property is not used for any commercial purpose after the transfer.

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

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

MCL 211.27a

BACKGROUND INFORMATION:

HB 4050 is a reintroduction of HB 5546 of the 2017-18 legislative session.

FISCAL INFORMATION:

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.

ARGUMENTS:

For:

Supporters of the bill argue that it protects those who receive or inherit family-owned property from a relative from a sudden and sharp increase in their property taxes. They argue that by covering only noncommercial properties transferred between family members, the bill avoids substantially undercutting the tax revenues collected by local government units, especially school districts.

Against:

Opponents of the bill argue that it leaves open a substantial loophole that would allow individuals to avoid paying their property taxes. They argue that the bill does not do enough to prevent the abuse of this loophole and that it would undercut funding for school districts that are already strapped for cash.

POSITIONS:

The Michigan Realtors Association indicated support of the bill. (4-24-19)

A representative of the Michigan Association of School Boards testified in opposition to the bill. (4-24-19)

The following entities indicated opposition to the bill (4-24-19):

- Department of Treasury
- Middle Cities Education Association
- Michigan Association of Superintendents and Administrators
- Calhoun Intermediate School District
- Michigan Association of Intermediate School Administrators

Legislative Analyst: Jenny McInerney
Fiscal Analyst: Ben Gielczyk

■ 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.