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BILL ANALYSIS

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Senate Bill 348 (as enrolled) **PUBLIC ACT 114 of 2005**
Sponsor: Senator Nancy Cassis
Senate Committee: Finance
House Committee: Tax Policy

Date Completed: 2-16-06

RATIONALE

Under the General Property Tax Act, a local tax collecting unit that collects a summer property tax must defer the collection of the taxes against the principal residence of a low-income taxpayer if the taxpayer requests a deferment. To be eligible to defer taxes levied after December 31, 2004, the taxpayer had to have a household income of $35,000 or less and meet other criteria. Some people believed that the income limit was too low and that taxpayers with household incomes of up to $40,000 should be eligible.

CONTENT

The bill amended the General Property Tax Act to increase from $35,000 to $40,000 the maximum household income of a taxpayer who is eligible to defer the collection of the summer property taxes.

Under the Act, a local unit of government that collects a summer property tax against the homestead of a taxpayer must defer until the following February 15 the collection of summer property taxes for which a deferral is claimed by an eligible taxpayer. An eligible taxpayer previously had to have a total household income for the prior taxable year of $35,000 or less for taxes levied after December 31, 2004. An eligible taxpayer also must be a totally and permanently disabled person, blind person, paraplegic, quadriplegic, eligible serviceperson, eligible veteran, eligible widow or widower, or 62 years of age or older.

Under the bill, an eligible taxpayer may claim the deferral if, for the prior taxable year, he or she had a total household income of $35,000 or less for taxes levied after December 31, 2004, and before January 1, 2006; $37,000 or less for taxes levied after December 31, 2005, and before January 1, 2007; and $40,000 or less for taxes levied after December 31, 2006.

The bill took effect on September 22, 2005.

MCL 211.51

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

Public Act 24 of 2005 previously raised the household income limit to $35,000 in order to compensate for the inflation that had occurred since it was raised from $20,000 to $25,000 in 1992. The bill provides for additional increases in maximum household income, in two steps, to $40,000 for taxes levied after December 31, 2006. The increased income ceiling will allow more of Michigan's senior citizens and disabled residents to take advantage of the deferment.

Legislative Analyst: J.P. Finet

FISCAL IMPACT

The bill will alter the timing of when a portion of property tax revenue is received. As a result, the bill will result in both cash flow impacts for some local units and one-time reductions in revenue for the State and some local units each time the income thresholds in the bill change, because the delay will push the payment into a different fiscal year. School Aid Fund expenditures should be relatively unaffected because school districts operate on a fiscal year such that the deferral will not push payments into a new fiscal year.

Public Act 24 of 2005 increased the income limits for deferrals from $25,000 to $35,000. This bill increases the limit from $35,000 during 2005 to $37,500 in 2006 and $40,000 in 2007 and later. While it is unknown how many taxpayers will qualify for the deferral, as well as how many taxpayers who qualify will pursue a deferment and how much the summer tax levy that will be deferred will total, based upon assumptions for these factors, the bill will reduce State education tax revenue to the School Aid Fund by approximately $0.7 million to $1.0 million in FY 2005-06 and by $1.5 to $2.0 million in FY 2006-07. (The FY 2006-07 impact also includes the effect of the increase in the limit during FY 2005-06.) Under these assumptions, the bill will defer approximately $5.0 million to $8.5 million in local unit revenue in FY 2005-06 and $10.0 million to $20.5 million in FY 2006-07. For local units on a July-to-June fiscal year, this deferral will only affect cash flow, by delaying the receipt of payments from earlier in the fiscal year until later. However, local units on an October-to-September fiscal year, or a fiscal year that matches the calendar year, likely will experience a one-time revenue loss in each fiscal year during which the income threshold increases.

The Department of Treasury estimates that changing the income threshold to $35,000 in FY 2004-05, compared with an eventual $40,000 under the bill, would result in approximately 11,500 additional deferrals totaling approximately $20.0 million and reduce School Aid Fund revenue by approximately $4.0 million in FY 2004-05, assuming that the income constraint continues to apply to disabled individuals and eligible veterans or related individuals.

Fiscal Analyst: David Zin