

Legislative Analysis



SUMMER TAX DEFERMENT: INCOME THRESHOLD

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House Bill 4188 as enrolled
Public Act 24 of 2005
Sponsor: Rep. Tory Rocca
House Committee: Tax Policy
Senate Committee: Finance

Second Analysis (7-21-05)

BRIEF SUMMARY: The bill would increase the household income threshold for a summer property tax deferral made available to certain senior citizens and disabled individuals from \$25,000 to \$35,000.

FISCAL IMPACT: Because the property taxes in question are ultimately received, the actual fiscal impact would be limited primarily to foregone interest that the funds could have generated. However, because State Education Tax revenue that would be collected in September 2005 would be deferred until February 2006, the state (and the School Aid Fund) would face a one-time revenue reduction of approximately \$4 million for the 2004-05 fiscal year. Many local units could also face the same problem of a one-time revenue reduction.

Even for those units that would not realize a revenue reduction, there is a potentially greater issue of cash flow. Based on information provided by the Department of Treasury, increasing the income threshold from \$25,000 to \$35,000 could permit as many as 11,500 additional deferrals and could result in an additional \$20 million or more in deferred property tax payments.

THE APPARENT PROBLEM:

The General Property Tax Act requires local tax collecting units that collect a summer property tax to defer the collection, at the taxpayer's request, until the following February 15 for the principal residence (formerly known as homestead property) of certain taxpayers with a household income of \$25,000 or less. To be eligible for the deferment, the taxpayer must be totally and permanently disabled; blind; paraplegic; quadriplegic; or an eligible serviceperson or an eligible veteran (or be the widow or widower of such a person). The deferment is also available to taxpayers who are at least 62 years of age or the unremarried surviving spouse of a person who was 62 years of age or older at the time of death. The taxpayer must file a claim with the local treasurer by September 15 or the date the taxes are due, whichever is later.

Summer tax deferments were first made available in 1976 through the enactment of Public Act 294 of 1975, which initially established a household income threshold of \$10,000. The threshold has since been increased on two previous occasions. Public Act 205 of 1984 increased the threshold to \$20,000, and Public Act 97 of 1992 increased the

threshold to the current level of \$25,000. Given that the income threshold has not increased in over a decade, legislation raising it has been introduced.

THE CONTENT OF THE BILL:

The bill would amend the General Property Tax Act to increase the household income threshold for a summer tax deferral available to senior citizens and disabled individuals from \$25,000 to \$35,000, beginning in 2005.

MCL 211.51

ARGUMENTS:

For:

The household income limitation for summer property tax deferrals has been \$25,000 since 1992. The bill proposes an increase in the income threshold that nearly offsets the increased cost of living since 1992. Without inflationary increases since 1992, the summer tax deferral has been made available to fewer and fewer elderly and disabled citizens each year. It's likely that many taxpayers who qualified for the deferral in previous years are no longer eligible because they exceed the income threshold, notwithstanding the financial hardships the taxes continue to impose. Moreover, with the recent trend of shifting the collection of more taxes to the summer, the summer tax can impose a greater financial hardship than in previous years. The deferral is particularly important to taxpayers on fixed incomes who must often choose between paying the taxes and purchasing necessary items, such as medication, and grants them additional time to pay their property taxes without being subject to costly penalties.

Against:

There is concern that the bill would result in a \$2 million to \$4 million loss in School Aid Fund revenue at a time when the state cannot really afford it. Some people argue that before further reducing state revenue, the legislature should work to resolve the current budget deficit.

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.