House Bill 4072 (as passed by the House)
Sponsor: Representative Dave Hildenbrand
House Committee: Tax Policy
Senate Committee: Agriculture, Forestry and Tourism

Date Completed: 5-10-06

CONTENT

The bill would amend the General Property Tax Act to include raising, breeding, training, or boarding horses within the definition of "agricultural operations", for the purpose of classifying agricultural real property.

The Act requires a local tax assessor each year to classify every item of assessable property in the local tax collecting unit, and to tabulate the total number of items and the valuations for each classification. The classifications include agricultural, commercial, developmental, industrial, residential, and timber-cutover real property.

Agricultural real property includes parcels used partially or wholly for agricultural operations, with or without buildings; parcels assessed to the Department of Natural Resources and valued by the State Tax Commission; and buildings on leased land used for agricultural operations.

The Act lists a number of activities that are agricultural operations, including farming; dairying; turf and tree farming; growing and harvesting any agricultural, horticultural, or floricultural commodity; and raising livestock, bees, fish, and fur-bearing animals. The bill also would include raising, breeding, training, or boarding horses.

(Under the Act, qualified agricultural property (which includes property classified as agricultural) is exempt from the tax levied by a local school district for school operating purposes to the extent provided in the Revised School Code. The Code permits a school district, with voter approval, to levy up to 18 mills on nonhomestead property for school operating purposes, but exempts a principal residence and qualified agricultural property from the mills levied (except to the extent the exemption is reduced for certain districts).

The Act also exempts transfers of qualified agricultural property from the definition of "transfer of ownership", under certain circumstances. This means that annual assessment increases remain limited to the lesser of 5% or the rate of inflation, and the assessed value does not revert to 50% of the true cash value (State equalized valuation) upon the transfer.)

MCL 211.34c   Legislative Analyst: Curtis Walker

FISCAL IMPACT

The bill would increase School Aid Fund expenditures by an unknown amount. The taxable value of property that would qualify for the exemption from school operating mills under the bill is unknown. The exemption would reduce local school district revenue. However, because of per-pupil funding guarantees under the School Aid Fund, any reduction in locally raised revenue would be offset by increased expenditures from the School Aid Fund.

The bill also could reduce future increases in State and local property tax revenue because, if the property were sold and the new owner filed the necessary documentation, the taxable value of the property would not increase to equal the State equalized value of the property, as it does under current law. Current law exempts transfers of qualified agricultural property from this increase upon a transfer of ownership under certain conditions. The amount of any future revenue reduction to the State or local units is not known.

Although not tie-barred, the bill is being considered in committee with other bills that would amend the same section of statute and provide the exemption to other types of property. In the event that more than one of the bills was adopted as currently written, the last bill signed essentially would nullify the other bills because none of the bills incorporates the exemptions provided in the others.

This estimate is preliminary and will be revised as new information becomes available.

Fiscal Analyst: David Zin

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