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BILL



ANALYSIS

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Senate Bills 1287 and 1288 (as introduced 9-19-12)
Sponsor: Senator Darwin L. Booher
Committee: Natural Resources, Environment and Great Lakes

Date Completed: 9-25-12

CONTENT

Senate Bill 1287 would amend the Qualified Forest Property Recapture Tax Act to redirect recapture tax proceeds from the General Fund to a proposed Private Forestland Enhancement Fund.

Senate Bill 1288 would create the "Qualified Forest Specific Tax Act" to exempt qualified forest property from the property tax; impose a specific tax on the owner of qualified forest property; and allocate a portion of the specific tax to the Private Forestland Enhancement Fund.

The bills are described in more detail below.

Senate Bill 1287

Under the General Property Tax Act, qualified forest property is exempt from the tax levied by a local school district for school operating purposes, to the extent provided in the Revised School Code, subject to an annual limit on the acreage of exempt forest property.

When property is converted by a change in use and is no longer qualified forest property, it is subject to the recapture of taxes under the Qualified Forest Property Recapture Tax Act. The proceeds of the recapture tax must be credited to the State's General Fund.

Beginning January 1, 2013, the bill would require the proceeds to be credited, instead, to the Private Forestland Enhancement Fund (which Senate Bill 1057 (S-2) would create).

(The General Property Tax Act currently defines "qualified forest property" as a parcel of real property that meets all of the following conditions:

- Is not less than 20 contiguous acres in size, of which not less than 80% is productive forest capable of producing wood products.
- Is stocked with forest products.
- Has no buildings or structures located on the property.
- Is subject to an approved forest management plan.)

Senate Bill 1288

The bill would exempt qualified forest property from ad valorem property taxes collected under the General Property Tax Act, and would levy the "qualified forest property specific tax" upon the owner of qualified forest property. The specific tax would be an annual tax payable at the same times, in the same installments, and to the same collecting officer or officers as taxes collected under the General Property Tax Act.

The bill would require the assessor of each local tax collecting unit containing qualified forest property to determine annually as of December 31 the value and taxable value of each parcel of qualified forest property located in that local tax collecting unit.

The amount of the qualified forest property specific tax would have to be determined as follows:

- Multiplying the property's taxable value by the number of mills that would be assessed in the local tax collecting unit, excluding the number of mills levied under the Revised School Code, if the property were subject to the collection of taxes under the General Property Tax Act.
- Multiplying the property's taxable value by two mills.

The collecting officer or officers would have to disburse the first portion of the specific tax to the State and cities, townships, villages, counties, or other taxing units, at the same times and in the same proportions as required by law for the disbursement of taxes collected under the General Property Tax Act, excluding disbursements for amounts levied under the Revised School Code.

The second portion of the specific tax (taxable value multiplied by two mills) would have to be disbursed to the Department of Treasury for deposit in the Private Forestland Enhancement Fund.

The collecting officer or officers would have to send the State Tax Commission a copy of the amount of disbursement made to each taxing unit and to the Department of Agriculture and Rural Development.

Qualified forest property located in a renaissance zone would be exempt from the qualified forest property specific tax to the extent and for the duration provided in the Michigan Renaissance Zone Act, except for the portion of the specific tax attributable to a tax described in Section 7ff(2) of the General Property Tax Act. (Under that section, property in a renaissance zone is not exempt from special assessments, property taxes levied to repay obligations of the local governmental unit, or taxes levied under certain sections of the Revised School Code.) The specific tax calculated under this provision would have to be disbursed proportionately to the taxing unit or units that levied the tax described in Section 7ff(2).

Unpaid qualified forest property specific taxes would be subject to forfeiture, foreclosure, and sale in the same manner and at the same time as taxes returned as delinquent under the General Property Tax Act.

MCL 211.1035 (S.B. 1287)

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bills would reduce General Fund revenue by an unknown and likely negligible amount. However, Senate Bill (SB) 1288 would potentially increase School Aid Fund expenditures by an unknown amount as well as reduce local unit revenue by an unknown, and likely minimal, amount. The bills would increase revenue to the Private Forestland Enhancement Fund by an unknown amount.

The bills are not tie-barred to each other, or to any of a variety of other bills that would amend a number of statutes that relate to qualified forest property. Similarly, none of the other bills are tie-barred to Senate Bill 1287 or 1288. The potential fiscal impact of these bills would vary based on whether some of the other bills would be enacted. For example, SB 1059 (S-2) (which has passed the Senate) would exempt qualified forest property from all general ad valorem taxes levied under the General Property Tax Act, rather than just the 18 mills from which the property is currently exempt. The specific tax in SB 1288 would

impose a new tax equal to all taxes that are currently levied on qualified forest property, plus another two-mill tax, and less any mills levied by intermediate school districts (ISDs) or for local school debt or sinking funds. As a result, if SB 1059 (S-2) were not enacted, SB 1288 would roughly double the property taxes on property that is currently qualified forest property; on the other hand, if SB 1059 (S-2) were enacted, then SB 1288 would increase property taxes on qualified forest property by two mills, although in cases where the millage from ISDs, local school debt, and sinking funds exceeds two mills (which occurs in all but five school districts), the change would result in a net decrease in property taxes on affected property.

Currently, approximately 70,000 to 80,000 acres are enrolled in programs that treat the property as qualified forest property. It is unknown how many owners of property would choose to seek qualified forest property status, or how many acres would be involved, if SB 1059 (S-2) were enacted. If the changes in SB 1059 (S-2) did not become law, and assuming an average taxable value of \$1,000 per acre, SB 1288 would increase revenue to the Private Forestland Enhancement Fund by approximately \$140,000 to \$160,000 per year. If SB 1059 (S-2) were enacted, the increase would depend on the number of acres enrolled in the program. The specific tax proposed in SB 1288 would direct an average of \$2 per acre into the Fund and the total impact would depend on the number of acres enrolled as qualified forest property.

To the extent that more properties became qualified forest property, School Aid Fund expenditures would increase if per-pupil funding guarantees were to be maintained. It is unknown how many additional acres of land might become qualified forest property, but assuming an average taxable value of \$1,000 per acre, every 10,000 additional acres would increase School Aid Fund expenditures by \$180,000. Qualified forest acreage is not likely to increase significantly under the bill for several reasons. As indicated above, existing qualified forest property would face increased taxes under SB 1288, although if SB 1059 (S-2) were enacted, the increase would average approximately \$2 per acre per year. Research suggests that roughly half of the noncommercial forest land that could qualify for the program is already exempt from school operating levies, meaning that enrollment in the program also would represent a \$2 per acre increase in property taxes for those properties. Research also suggests a wide variety of practical and aesthetic reasons are behind property owners' decisions not to seek qualification as qualified forest property, and the bills would not change those circumstances. For remaining property, owners would need to compare the estimated \$16 per acre per year net reduction in property taxes to the costs of implementing and successfully following a forest management plan, given that property owners are already free to harvest timber from their land without a plan.

If SB 1059 (S-2) were enacted, SB 1288 would reduce local unit revenue by an unknown, and likely minimal amount. As indicated above, the proposed specific tax would not include mills levied by ISDs or for local school debt or sinking funds. As a result, the bill would reduce revenue to these entities. If qualified forest property under the bill totaled 80,000 acres, the bill would lower local unit revenue by approximately \$670,000.

The changes in SB 1287 would reduce General Fund revenue by an unknown amount by redirecting the revenue from the General Fund to the Private Forestland Enhancement Fund. It is unknown how many properties would be subjected to the terms of the recapture, or the specific characteristics that would affect their liability.

Fiscal Analyst: David Zin

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.