Legislative Analysis

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PRINCIPAL RESIDENCE EXEMPTION: TRUST PROPERTIES

Senate Bill 425 (Substitute S-1)
Sponsor: Sen. Jack Brandenburg
House Committee: Tax Policy
Senate Committee: Finance

Complete to 5-13-14

A SUMMARY OF SENATE BILL 425 AS PASSED BY THE SENATE 11-6-13

Senate Bill 425 (S-1) would amend the General Property Tax Act (1893 PA 206) to allow the present beneficiary of a trust to claim a principal residence exemption (PRE) for property owned by the trust, if that property is the beneficiary's principal residence.

The General Property Tax Act (1893 PA 206) provides an exemption for a taxpayer's owner-occupied principal residence from the 18 mills (generally) levied for school operating purposes. Generally speaking, "principal residence" is defined as the one place where an owner of the property has his or her true, fixed, and permanent home to which, whenever absent, the owner intends to return and that shall continue as a principal residence until another principal residence is established.

The act defines "owner" to include, among others, (1) a person who owns the property as a result of being a beneficiary of a trust; (2) a grantor who has placed the property in a revocable trust or a qualified personal residence trust; and (3) the sole present beneficiary of a trust if the trust acquired the residence for the beneficiary and the beneficiary is totally and permanently disabled.

The bill would expand the definition of "owner" to also include, as noted above, a present beneficiary of the trust as long as the property is the principal residence of the beneficiary and the beneficiary filed an affidavit claiming the exemption and meets the requirements for claiming the exemption.

FISCAL IMPACT:

As written, the bill could increase School Aid Fund (SAF) expenditures and reduce net General Fund (GF) revenue by an unknown amount. By granting new principal residence exemptions (PREs), local school districts may need additional funds from the SAF to maintain guaranteed funding levels. Net GF revenue could also decrease if this bill results in additional taxpayers becoming eligible for homestead property tax credits.

Precise estimates of the costs of this bill cannot be made at this time. Any estimate would require data on the number of properties this bill would affect, as well as their taxable values, data which is not currently available. As a hypothetical (calculated following the Senate Fiscal Agency's method), if 5% of the approximately 66,000 trusts in Michigan that were require to file with the IRS in 2012 are affected by this legislation, and the taxable value of those properties averages $100,000, then the cost of these new PREs would be approximately $6 million to local school districts or the SAF.

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