

Legislative Analysis



PROPERTY TAX TRANSFER OF OWNERSHIP: LIFE ESTATES

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House Bill 4930 as introduced
Sponsor: Rep. Aric Nesbitt
Committee: Tax Policy
Complete to 10-27-15

Analysis available at
<http://www.legislature.mi.gov>

SUMMARY:

House Bill 4930 would allow transfer of property subject to a life estate or life lease to the transferor's spouse, or both the transferor and his or her spouse, without subjecting the portion of the property subject to the life estate or life lease to the "pop-up" tax. In addition, if the life estate or life lease vests to certain individuals, the portion of the property subject to the life estate or life lease will not be subject to the "pop-up" tax upon the expiration or termination of the life estate or life lease.

Under the General Property Tax Act, the taxable value of a parcel of property cannot increase from one year to the next by more than the rate of inflation or five percent, whichever is less. However, when there is a transfer of ownership, the assessment of a parcel "pops up" to 50 percent of the market value (which is referred to as state equalized valuation, or SEV). The property tax act defines when a transfer of ownership has occurred—and when it has not—for the purpose of resetting the assessment based on market value.

Generally speaking, the act currently provides that the transfer of property subject to a life estate or life lease not retained solely by the transferor of the property is a transfer of ownership that results in a "pop-up" of the taxable value of the property at the time of the transfer. If the property subject to the life estate or life lease is retained solely by the transferor, then the property's taxable value results in a "pop-up" at the expiration of the life estate or life lease no matter who is the transferee.

House Bill 4930 provides that the transfer of property subject to a life estate or life lease retained by the transferor and/or his or her spouse is not a transfer of ownership at the time of the transfer. In addition, if the transferee of the property subject to a life estate or life lease is the transferor's or transferor's spouse's mother, father, brother, sister, son, daughter, adopted son, adopted daughter, grandson, or granddaughter, there is no transfer of ownership at the expiration or termination of the life estate or life lease.

FISCAL IMPACT:

As written, the bill could reduce both state and local tax revenue relative to current law. By leaving the taxable value cap in place on affected properties, local units will not see the increase in their property tax base that would have occurred under current law. This also means that tax base for the State Education Tax (SET) will grow more slowly under the

legislation than under current law. Both of these effects amount to a reduction in local and School Aid Fund (SAF) revenues. The loss of local revenue collected for local schools could increase SAF expenditures (and transfers from the General Fund to the SAF), should funding fall below the per-pupil guarantee. A cost estimate cannot be made, since the cost depends on the number of properties affected, their current taxable value, and the local millage rate, data that is not available in advance.

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