Legislative Analysis

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STATE EDUCATION TAX REPEAL

House Bill 5873 as introduced
Sponsor: Rep. Steve Frisbie
Committee: Government Operations
Revised 5-19-26

SUMMARY:

House Bill 5873 would repeal the State Education Tax Act, which imposes a six-mill state education tax on all property not exempt from property taxes under the General Property Tax Act and directs the revenue to the School Aid Fund (SAF) for distribution to local school districts for school operating purposes.

The bill states that it is the intent of the legislature to annually appropriate sufficient funds from the state general fund to compensate the School Aid Fund for any loss of revenue resulting from the repeal of the state education tax.

The bill would take effect 90 days after it is enacted.

The bill is tie-barred to House Bill 5880 and cannot take effect unless House Bill 5880 is also enacted.[1]

MCL 211.901 et seq. (repeal)

FISCAL IMPACT:

The bill would reduce School Aid Fund revenues by $3.2 billion in FY 2027 (assuming the effective date allowed for a full fiscal year impact in FY 2027) and $3.3 billion in FY 2028, which reflect estimates of state education tax (SET) collections from the May 2026 Consensus Revenue Estimating Conference. The SAF receives 100% of the revenue collected from the SET.

The bill is tie-barred to House Bill 5880, which would establish a services excise tax. Funds collected under the services excise tax would be deposited in a newly created Property Tax Savings Reimbursement Fund. For FY 2027, assuming sufficient funds were available, the fund would disburse to the SAF an amount equal to the total received by the SAF from the SET for the 2026 property tax year. In subsequent years, this amount would be adjusted for inflation using the Consumer Price Index, not to exceed 3%.

The elimination of the SET would also increase individual income tax revenue primarily dedicated to the general fund by an unknown amount by reducing the value the homestead property tax credit.

[1] House Bill 5880 proposes an excise tax on certain services.

While the bill provides language stating legislative intent that the legislature annually appropriate sufficient funds from the state general fund to the SAF to fully compensate for any loss of revenue to the SAF resulting from the repeal of the SET, statute cannot mandate an appropriation.

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