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BILL ANALYSIS

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Senate Bill 90 (Substitute S-3 as passed by the Senate)

Sponsor: Senator Gilbert J. DiNello

Committee: Finance

Date Completed: 7-17-89

RATIONALE

Under the General Property Tax Act, if a homeowner improves his or her property in a way that increases the value of the property, future assessments of the property by a local unit may reflect this improvement and result in a higher property tax levy. For instance, if a homeowner added a \$10,000 room to his or her house, the assessment of the property could be raised by the local assessor, to a level that the assessor felt reflected the total value of the property with the addition. It has been argued that this method of taxation has the effect of penalizing a person who improves his or her property; that is, the more the homeowner fixes up the home, the greater the chances that the property tax on the home will be raised. Some people feel that local units of government should be allowed, under certain circumstances, to grant property tax exemptions for improvements that homeowners make to their homes.

CONTENT

The bill would add a section to the General Property Tax Act, to be known as the "Residential Property Tax Exemption Act", to allow a local unit of government to grant residential property tax exemptions for up to six years to an owner of a single-family dwelling for improvements or additions to the property that increased its true cash value by at least \$1,500.

The bill provides that the governing body of a local unit could, by resolution, elect to accept applications and provide for the granting of residential property tax exemptions. An owner of a residential dwelling over three years old, that was used as the primary residence of the

owner or a lessee, could claim a residential property tax exemption against property taxes equal to the increase in true cash value due to an improvement or addition, or both, to the property that increased the value by at least \$1,500. ("Residential dwelling" would mean a house, building, or structure occupied solely by one family as a permanent living or sleeping place, and classified as residential property.) An owner of a residential dwelling who wished to claim an exemption under the bill would have to file an application for the exemption with the assessor of the local governmental unit, on a form prescribed by the assessor. An application could not be filed later than two months after construction was begun on an improvement or addition.

Before consideration of an exemption, the local unit would have to decide the criteria to be used to determine the approval of an exemption and the time period of the exemption, and make the information available to applicants. The criteria could be more restrictive than the requirements specified in the bill, but could not include any geographical limitations. To qualify for an exemption an improvement or addition could be, but would not be limited to, one of the following:

- A new garage.
- Enlargement of an existing garage.
- An addition to the residential dwelling only if the addition were attached to the dwelling.
- A wood or cement patio or deck, with or without an overhead covering, that was not attached to the dwelling.
- A porch or steps attached to the dwelling.

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- Landscaping and cement work including steps used in completing a permanently fixed exterior barbecue pit, or in-ground or above-ground swimming pool (but not including the barbecue pit or swimming pool).
- A barrier-free design structure.

An exemption could not apply to an improvement or addition that increased the living area of a dwelling by over 50%.

Upon receiving an application for a residential property tax exemption, and not more than 30 days after completion of construction on an improvement or addition, an assessor of a local unit would be required to determine if the improvement or addition increased the assessment of the property and by what amount. If the assessor found that the true cash value of the property had increased, he or she would have to determine if all the criteria set forth in the resolution adopted by the local unit, and the requirements of the bill, had been met. If so, the assessor would have to approve the application. If approved, the exemption would be effective on the December 31 immediately following approval of the exemption. The assessor would have to put the approval in writing, noting the effective date and the duration of the exemption, and send it to the applicant and the local unit. If disapproved, the assessor would have to put the reasons in writing and send them to the applicant. An owner could appeal the decision of the assessor to the local board of review, which would make the final determination.

The assessor would have to record an exemption on the tax roll in the same manner as any other exclusion from true cash value as provided in the General Property Tax Act, until the exemption expired or the property was sold.

The bill contains a statement that, "The Legislature finds that to encourage property owners to improve or make additions to certain residential property that will enhance neighborhood growth and stability, it is in the best interest of the citizens of the state for the legislature to allow local governmental units to grant residential property tax exemptions."

Proposed MCL 211.7cc

FISCAL IMPACT

The bill would lead to an indeterminate reduction in local property taxes. In 1988, approximately 30% of the increase in the market value of residential property was a result of new construction. Sufficient data are not available, however, to distinguish between completely new buildings and additions to existing buildings. The number of local governmental units that would elect to accept applications for property tax exemptions also is not known. Assuming that all local districts would have granted an exemption to eligible property and that 20% of all new construction was due to additions to existing buildings, and applying the statewide millage average, Senate Bill 90 would have reduced local property taxes by \$20 million to \$40 million in 1988.

ARGUMENTS

Supporting Argument

The current method by which home improvements are treated under the General Property Tax Act is illogical. A homeowner who adds a garage to his or her property can expect to get socked with a higher property tax bill the following year. This is clearly a disincentive for homeowners to make improvements to their property, because it penalizes those who make the effort and expenditures by raising their taxes. In the extreme, some people may feel that it is better to let their property deteriorate because it would ensure that they didn't pay higher taxes. It would be better for homeowners, and better for neighborhoods, if there were incentives for persons to make home improvements without fear of increased taxes. The bill, by giving local units the option to grant home improvement exemptions, could give homeowners a dose of encouragement to improve their property.

Opposing Argument

The bill offers inequitable tax treatment and could be costly for some local units. If a local unit decided to grant exemptions for homeowners who make improvements, would the local unit cut this foregone revenue from its budget? The likely answer is that it would not, or would not be able to, cut revenues, and this means that other property taxpayers (business, industry, and homeowners who don't

make improvements) in the unit would have to make up for the lost revenue. In addition, the bill would discriminate against new construction. Why should a person who adds a garage to his or her property be given a tax exemption, while a person who builds a new home with a garage not be? Finally, the bill basically would provide a tax break for persons who can afford to make home improvements while doing nothing for those who can't. Is this proper tax policy?

Response: Is it proper tax policy to encourage the deterioration of neighborhoods by penalizing persons who improve their property, as is currently the case? It must be remembered that the bill would be optional and would not establish a statewide policy; if a local unit felt that it wanted to encourage its homeowners to make home improvements, it could set up an exemption program. If it felt that such a program would be improper, it could choose not to implement the program. Some units may feel that homeowners need a small tax break as an incentive to perform improvements, and the bill would allow them to act upon that idea.

Opposing Argument

The bill would provide little incentive for a homeowner to make improvements, but could cause big problems for local units. If the bill passes there could be tremendous pressure on elected officials in a local unit to put an exemption program in place. It is unlikely that a person who decides to make a major improvement to a home would do so for a tax break that amounts to a few dollars per year, however, if a local unit granted exemptions, and many homeowners (who were going to make improvements anyway, with or without the exemption) claimed the exemption, the collective effect could cause revenue problems for the local unit.

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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.