

# Legislative Analysis



## COLLECTION OF STATE EDUCATION TAX

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### Senate Bill 1101 (Substitute H-1)

**Sponsor: Sen. Bob Emerson**

**House Committee: Tax Policy**

**Senate Committee: Finance**

### First Analysis (5-30-06)

**BRIEF SUMMARY:** The bill would require townships for which the Department of Treasury collects the State Education Tax in the summer of 2006 to collect the SET themselves beginning in the summer of 2007.

**FISCAL IMPACT:** Because local units are allowed to keep \$2.50 per parcel along with a one percent administration fee when they collect the State Education Tax, local revenue could increase by a very small amount and SET revenue (which is earmarked to the School Aid Fund) would decline by roughly the same amount.

### **THE APPARENT PROBLEM:**

In 2002, as part of the FY 2003 budget agreement, collection of the State Education Tax shifted to the summer. Local units that did not previously collect summer taxes were given the option of declining to collect the tax, with the county then responsible for collection. If the county also declined to collect the tax, the Department of Treasury was responsible for collection. Currently, the department collects the SET in five municipalities in Genesee and Sanilac counties. The department has stated that the collection of taxes in these local units can be rather confusing for taxpayers given that, at varying times of the year, taxes are collected by the state or local unit, and delinquent payments are collected by the local unit, the county, or the state. It has suggested that, in order to provide clearer guidance to taxpayers as to who is responsible for collection, that the local units collect the tax.

### **THE CONTENT OF THE BILL:**

Under the State Education Tax Act, cities and townships that collect no property taxes in the summer other than village taxes and county operating taxes must collect the SET, unless they had opted out of collecting the tax by adopting a resolution prior to November 2002. If a city or township declined to collect the tax, the county is responsible for collecting the tax unless the board of commissioners adopted a resolution prior to February 2003 declining to collect the tax. If the city or township and the county decline to collect the tax, the Department of Treasury is responsible for collection.

Senate Bill 1101 provides that notwithstanding adoption of a resolution declining to collect the SET by a city or township's legislative body, a city or township for which the

state treasurer collected the SET in the summer of 2006 would be required to collect the SET beginning in the summer of 2007.

MCL 211.905b

***HOUSE COMMITTEE ACTION:***

The substitute bill reported by the committee pushes back the effective date of the bill by one year. As introduced, the bill would have required the affected townships to collect the SET in 2006, rather than 2007.

***BACKGROUND INFORMATION:***

The State Education Tax Act was enacted as part of Proposal A of 1994, the school finance reform package. Historically, the six-mill SET was collected at the same time other taxes levied by a school district were collected. However, in 2002, then-Governor Engler recommended accelerating collection of the SET, as part of a plan to increase foundation grants to local school districts. Public Act 244 of 2002 moved collection of the SET to the summer tax levy and, for 2003 only, lowered the rate to five mills. The act permitted certain cities and townships to decline to collect the tax (as described above), but granted local units that collected the tax with a \$2.50 per parcel reimbursement, upon appropriation. The act also permits local use to charge a one percent administration fee. After no appropriation was made in FY 2004, Public Act 108 of 2004 was enacted to allow local units to retain \$2.50 per parcel before remitting the SET collection to the state (meaning the reimbursement no longer depended upon a state appropriation).

Public Act 357 of 2004 shifted collection of most county taxes from the winter to the summer (as part of the FY 2005 budget agreement), phased in over a three-year period. The change, however, had the affect of making local units ineligible to receive the \$2.50 per parcel reimbursement for collecting the SET. Public Act 543 of 2004 was enacted to permit local units collecting no summer taxes other than the SET, village taxes, and certain county taxes to retain the \$2.50 per parcel reimbursement.

***ARGUMENTS:***

***For:***

Compared to the original bill, the substitute bill meets the needs of both the Department of Treasury and the five affected municipalities. The Department of Treasury has long wanted to stop collecting the tax, and cited the rather confusing collection process – depending on the time of year, taxes would either be collected by the state or the local unit and any delinquent taxes would be payable to the state, the local unit, or the county – as a reason for making that change. Moreover, it seems that the department's time and resources would be better spent on other initiatives, given the small number of local units (five out of more than 1700) for which the department collects the SET.

The department wanted the local units to collect the tax beginning this summer. That, however, created a problem for those units, because of the little lead time they would have in preparing for the summer collection. Summer tax bills, if they aren't already, will soon be printed. Shifting collection responsibility to local units this late in the process would have either delayed printing or required the local units print bills on their own. The local units, however, cannot afford to print the bills.

In addition, shifting collection responsibility this summer would have greatly burdened the affected local treasurers. These officials only work on a part-time basis, and collecting the tax this summer could have easily doubled their workload, without any additional compensation or other financial resources. Further, it was stated in committee that one township is in the process of converting to new software, and has yet to be trained on it. Collection in this township would have been a nightmare.

***POSITIONS:***

The Department of Treasury supports the bill. (5-25-06)

A representative of Clayton Charter Township testified in opposition to the bill as introduced but was supportive of the substitute bill. (5-24-06)

A representative of the Michigan Municipal Treasurers Association testified in opposition to the bill as introduced but was supportive of the substitute bill. (5-24-06)

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.