

Legislative Analysis



REAL ESTATE TRANSFER TAX

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House Bill 4441

Sponsor: Rep. Andy Meisner

Committee: Tax Policy

Complete to 3-12-07

A SUMMARY OF HOUSE BILL 4441 AS INTRODUCED 3-8-07

House Bill 4441 would amend the State Real Estate Transfer Tax Act (MCL 207.525 and 531) to increase the transfer tax on property being sold from \$3.75 to \$4.25 for each \$500 (or fraction of \$500) of the property being transferred. This would apply to principal residences (owner-occupied residences) transferred beginning May 1, 2007 through December 31, 2008. The additional 50 cents would be credited to the general fund of the local tax collecting unit to be used for public safety (police, firefighters, other first responders, school safety officers, and school resource officers). House Bill 4441 is tie-barred to House Bill 4440.

House Bill 4440 would amend the General Property Tax Act (MCL 211.27a and 34d) to exempt from the "pop-up" the transfer of a principal residence for the period beginning March 1, 2007 through September 1, 2008. This would apply only in cases where the residence was to continue to be a principal residence for the new owner. House Bill 4440 is tie-barred to House Bill 4441. This means neither bill could take effect unless both were enacted.

Generally speaking, the increase in the assessment of a parcel of real property cannot increase from one year to the next by more than the rate of inflation or five percent, whichever is less. However, when property is sold or transferred, its valuation returns (or "pops up") to 50 percent of market value. At that point, the assessment cap once again begins to apply, this time to the readjusted assessment. The General Property Tax Act contains a definition of what constitutes a "transfer" for the purpose of the "pop-up" and contains a list of transactions that do not count as transfers.

FISCAL IMPACT:

House Bill 4441: Increasing the Real Estate Transfer Tax by 0.10% (\$0.50 per \$500) for the 20-month period from May 2007 through December 2008 would generate about \$42 million, based on existing activity. To the extent that HB 4440 (which would temporarily remove the "pop-up") increases both sales activity and residential housing prices, the estimate would also increase.

House Bill 4440: By eliminating the increase in taxable value that would normally occur when a residential property is sold, the bill would reduce state and local revenue by an unknown amount. The statewide average millage rate for homestead property is

approximately 34 mills. Of this, the state imposes the six-mill State Education Tax (SET), which accrues to the School Aid Fund. The remainder, about 28 mills, remains at the local level.

BACKGROUND INFORMATION:

The assessment cap provisions were part of Proposal A, the new school financing system adopted by voters in 1994. Prior to Proposal A, property taxes were based on state equalized valuation or SEV, which was defined as 50 percent of true cash value. Since then, taxes have been based on "taxable value," which essentially is the SEV adjusted downward by the cap on assessment increases. One result is that owners of similar neighboring homes pay different amounts in property taxes. The assessment cap and pop-up together mean, obviously, that when a home is sold, the new buyer will face a significantly larger property tax bill than the old owner, assuming the home is increasing in value.

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