Senate Fiscal Agency
P.O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986

House Bill 4833 (Substitute H-1 as reported without amendment)
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Sponsor: Representative Jim Ellison (H.B. 4833)
Representative Mark Tisdel (H.B. 4834)
House Committee: Local Government and Municipal Finance
Senate Committee: Local Government

CONTENT

House Bill 4834 (H-1) would amend the General Property Tax Act to do the following:

-- Specify that, beginning December 31, 2022, and each year thereafter, qualified heavy equipment rental personal property (QHERPP) for which an exemption was properly claimed under the Qualified Heavy Equipment Rental Personal Property Specific Tax Act would be exempt from the collection of tax under the General Property Tax Act.
-- Require a qualified renter claiming the exemption to file a statement by February 20 of the calendar year immediately preceding the calendar year for which the exemption was being claimed.
-- Prescribe the information that would have to be included in the statement.
-- Specify that a person who fraudulently claimed an exemption would be guilty of a misdemeanor and prescribe a penalty for a violation.

House Bill 4833 (H-1) would enact the "Qualified Heavy Equipment Rental Personal Property Specific Tax Act" to do the following:

-- Levy a QHERPP specific tax of 2% of the rental price of the eligible personal property (i.e., QHERPP exempt from taxation under the General Property Tax Act as prescribed in House Bill 4834 (H-1)).
-- Require the Department of Treasury to collect and administer the tax as specified in the bill.
-- Specify that, if a qualified renter failed to submit payment in full after the issuance of the Department's notice to do so or after an audit assessment, or if the Department discovered that the property was not eligible for an exemption, the Department would have to rescind the exemption and the treasurer of the local tax collecting unit would have to issue amended tax bills for taxes not billed and that were owed as a result of the rescission.
-- Require the Department to develop and implement an audit program.
-- Create the "Qualified Heavy Equipment Rental Personal Property Exemption Reimbursement Fund" and provide for the disposition of money from the Fund.

The bills are tie-barred.

Proposed MCL 211.p (H.B. 4834) Legislative Analyst: Dana Adams

FISCAL IMPACT

Together, the bills would have a negative fiscal impact on the State and an indeterminate fiscal impact on local government. Several factors would determine whether individual local governments would experience a positive or negative fiscal impact, as explained below.

Exempting QHERPP from property taxes would reduce revenue to local governments as well as reduce revenue and increase costs to the SAF. The exemption would reduce revenue for the State Education Tax, and since school operating mills also would be reduced, costs to the SAF would increase if the foundation allowance were maintained. A portion of the new QHERPP tax would be distributed to the SAF, but there is not enough information to determine whether the distribution would be greater or less than the reduced revenue and increased costs to the SAF.

It is unknown whether, in total, the new QHERPP tax would bring in more or less revenue than property taxes currently. Property tax rates vary around the State and they are based on the current depreciated value of the equipment. The QHERPP tax, on the other hand, would be assessed as 2.0% of the rental price of the equipment. Over the life of any given piece of equipment, it is not known which method of valuation would generate more revenue.

Even if the total amount of revenue generated were the same, there would be large distributional effects from the proposed change. Currently, QHERPP is taxed by local units of government based on where the equipment is sitting on December 31 of each year. Under the bill, 90% of the QHERPP tax would be distributed to local units where at least one qualified rental business location was reported for the two immediately preceding quarterly reporting periods. The revenue would be distributed to those local units according their share of total tax collected in the qualifying local units in those two quarters. The remaining 10% would be distributed to cities, villages, townships, and counties, according to their proportional share of Local Community Stabilization Authority Act payments. This distribution formula would not take into account differences in tax rates of different local governments, so generally, local units with higher tax rates would get less revenue from the QHERPP tax and local units with lower tax rates would get more. Also, the bill would not allow cities, villages, townships, or counties that previously collected property tax from QHERPP, but do not have a qualified rental business location within their borders, to receive distributions from the 90% share. Those local units would be included in the remaining 10% distribution. (Other entities, such as community colleges, schools, libraries, and authorities that previously collected property tax from QHERPP, but do not have a qualified rental business location within their borders, would receive no distributions from the new tax.) Depending on the characteristics of a particular local unit, that could lead to reduced revenue for those units. Any cities, villages, townships, or counties that did not receive any property tax from QHERPP in previous years would collect more revenue as a result of the distributions.

The bills would add one-time costs to the Department of Treasury to process exemptions of taxes on the QHERPP and process new taxes imposed on the rental of newly eligible personal property. The overall costs could be greater than current appropriations. After the transition to the new tax system, costs for the Department would decrease and could be absorbed into ongoing appropriations.

New misdemeanor arrests and convictions under the bill could increase resource demands on law enforcement, court systems, community supervision, and jails. However, it is unknown how many people would be prosecuted under the bill's provisions. Any additional revenue from imposed fines would go to local libraries.

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Fiscal Analyst: Ryan Bergan
Joe Carrasco
Cory Savino