



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



BILL ANALYSIS

Telephone: (517) 373-5383  
Fax: (517) 373-1986  
TDD: (517) 373-0543

House Bill 4192 (Substitute H-1 as discharged)  
Sponsor: Representative John Stakoe  
House Committee: Tax Policy  
Senate Committee: Finance

Date Completed: 7-10-03

### **RATIONALE**

Michigan law provides for both a "homestead" exemption from school operating taxes, and a "homestead" credit against the income tax. Public Act 237 of 1994 created the homestead exemption as part of the package of legislation enacted to implement Proposal A (the school finance reform proposal approved by the voters in 1994). While all real property (other than specifically exempted property) is subject to a six-mill State education tax, a taxpayer's homestead is exempt from local school operating mills. (In general, school districts may levy up to 18 mills on nonhomestead property, with voter approval.) The owner of a homestead must file an affidavit with the local tax collecting unit to claim the exemption. A taxpayer may claim only one homestead exemption.

The homestead property tax credit, enacted in 1973, allows a taxpayer to claim a credit against the State income tax when filing his or her State income tax return. In general, the credit equals 60% of the amount by which the taxpayer's property taxes exceed 3.5% of the taxpayer's household income. A taxpayer may have only one homestead for purposes of the credit, and must be the occupant as well as the owner or renter of the homestead. Taxpayers whose income exceeds a certain limit are not eligible for the credit.

Many local treasurers have complained that, since the passage of Proposal A, substantial numbers of taxpayers have become confused and have had difficulty distinguishing between the homestead exemption and the homestead credit. Reportedly, this has caused some taxpayers who filed a homestead exemption not to claim a homestead credit, and vice versa. It has been suggested that this

confusion could be lessened or eliminated if the homestead exemption were called, instead, the "principal residence" exemption.

### **CONTENT**

The bill would amend the Tax Tribunal Act to replace references to "homestead" with references to "principal residence" in provisions pertaining to claims for exemption. The bill would take effect January 1, 2004.

The bill is tie-barred to Senate Bill 133. (That bill would amend the General Property Tax Act to replace the term "homestead" with "principal residence" in provisions that prescribe the process for an owner to claim an exemption from property taxes levied by a school district for school operating purposes. Senate Bill 133 is part of a group of proposals (Senate Bills 129 through 135) that would amend various statutes to delete references to "homestead" and, in some cases, replace them with references to "principal residence". All of the bills have been passed by the House.)

MCL 205.735

### **ARGUMENTS**

*(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)*

### **Supporting Argument**

Twenty years after the homestead property tax credit was created, the implementation of Proposal A added statutory provisions for a homestead exemption. The credit and the exemption offer two separate ways for

taxpayers to reduce their tax burdens, and qualified taxpayers may claim either or both. Because both the credit and the exemption refer to "homestead", some taxpayers have been or become confused regarding their ability to qualify for one or both.

A taxpayer may claim a homestead exemption in order to exempt his or her homestead (the primary place of residence) from school operating property taxes, regardless of the level of the taxpayer's income or the amount of the taxes. A taxpayer may claim a homestead credit, against his or her income tax liability, if the taxpayer's property taxes exceed a certain percentage of his or her household income (determined by the formula used in the calculation). Individuals with household incomes that exceed \$82,650 in a tax year are not eligible for the credit no matter how much property tax they paid that year. No income limit applies to the homestead exemption.

Apparently, some taxpayers who do not qualify for the homestead credit mistakenly think they also are ineligible for the homestead exemption, fail to file an affidavit, and thus are billed for and pay school operating property taxes on their homesteads. In other cases, taxpayers correctly file for a homestead exemption but do not claim a homestead credit (even though eligible), because they believe they already are receiving a tax break on their "homestead". Still others sometimes file for more than one homestead exemption, in violation of the General Property Tax Act, claiming one exemption for their home and another for their vacation home.

Together with Senate Bill 133 and the other bills in the package, House Bill 4192 (H-1) would make a clear distinction between the exemption and the homestead credit by replacing references to the "homestead" exemption with references to the "principal residence" exemption. This would help to reduce existing and future taxpayer confusion, and ensure that taxpayers receive the exemptions and credits to which they are entitled. The change in terminology also would make it easier for township treasurers to explain the exemption and the credit to the public.

Legislative Analyst: George Towne

## **FISCAL IMPACT**

The bill would have no fiscal impact on State or local government.

Fiscal Analyst: David Zin

H0304\4192a

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.