

Legislative Analysis



COLLECTION OF STATE EDUCATION TAX

Mitchell Bean, Director
Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

Senate Bill 1101 as passed by the Senate

Sponsor: Sen. Bob Emerson

House Committee: Tax Policy

Senate Committee: Finance

Complete to 5-23-06

A SUMMARY OF SENATE BILL 1101 AS PASSED BY THE SENATE 5-18-06

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 prior to November 2002. A copy of the resolution declining to collect the tax is sent to the state treasurer and the county treasurer. Since January 2004, the legislative body of a local unit has been permitted each January rescind its decision not to collect the SET.

(Similarly, if a city or township declines to collect the SET, the tax must be collected by the county unless the board of commissioners adopts a resolution declining to collect the tax. The board may later rescind the resolution and start to collect the tax. If a city or township and the county decline to collect the SET, responsibility for collection falls on the state treasurer. Local units that collect the SET are permitted to retain \$2.50 per parcel for collecting the tax.

Senate Bill 1101 provides that notwithstanding adoption of a resolution declining to collect the tax by a city or township's legislative body, in a city or township where the state treasurer collected the SET for the summer of 2005, the city or township would have to collect the SET beginning in the summer of 2006 and each summer thereafter.

MCL 211.905b

FISCAL IMPACT:

Because local units are allowed to keep \$2.50 per parcel along with a 1 percent administration fee when they collect the State Education Tax (SET), 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.

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 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 provided local units that collected the tax with a \$2.50 per parcel reimbursement, upon appropriation. After no appropriation was made in FY 2004, Public Act 108 of 2004 permitted local units to retain the \$2.50 per parcel, before remitting SET collections to the state.

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 effect 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.

Legislative Analyst: Mark Wolf
Fiscal Analyst: Jim Stansell

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