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BILL ANALYSIS



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Senate Bill 886 (as introduced 11-8-07)
Sponsor: Senator Jud Gilbert, II
Committee: Finance

Date Completed: 6-4-08

CONTENT

The bill would amend the General Property Tax Act to allow property that qualified as a principal residence to continue to qualify as a principal residence if all or any portion of the dwelling or unit included in or constituting the principal residence were rented or leased to another person as a residence while the owner of the dwelling or unit was absent while on active duty in the Armed Forces of the United States, so long as the dwelling or unit otherwise would qualify as the owner's principal residence.

Under the Act, a principal residence is exempt from the tax levied by a school district for school operating purposes to the extent provided under the Revised School Code. To claim the exemption, an owner of property must file an affidavit by May 1 with the local tax collecting unit in which the property is located. The affidavit must state that the property is owned and occupied as a principal residence by that property owner. A person may not claim the exemption if any of the following apply:

- The person's spouse has claimed the exemption.
- The person or his or her spouse has claimed a substantially similar exemption, deduction, or credit on property in another state that is not rescinded.
- The person has filed a nonresident Michigan income tax return and is not an active duty military personnel stationed in this State with his or her principal residence in Michigan.
- The person has filed an income tax return in a state other than Michigan as a resident, and is not an active duty military personnel stationed in this State with his or her principal residence in Michigan.

A person also may not claim the exemption if he or she previously rescinded an exemption for the same property, there has not been a subsequent transfer of ownership of that property, and either 1) the person has claimed an exemption for any other property for that tax year, or 2) the person has rescinded an exemption on other property, the exemption remains in effect for that tax year, and there has not been a transfer of ownership of that property.

"Principal residence" means the one place where an owner of the property has his or her true, fixed, and permanent home to which, whenever absent, he or she intends to return and that continues as a principal residence until another principal residence is established. Principal residence includes all of an owner's unoccupied property classified as residential that is adjoining or contiguous to the dwelling subject to ad valorem taxes and that is owned and occupied by the owner.

Principal residence includes only that portion of a dwelling or unit in a multiple-unit dwelling that is subject to ad valorem taxes and that is owned and occupied by an owner of the dwelling or unit. Principal residence includes any portion of a dwelling or unit of an owner that is rented or leased to another person as a residence as long as the rented or leased portion of the dwelling or unit is less than 50% of the total square footage of living space in that dwelling or unit. Under the bill, these provisions would apply except as otherwise provided in the definition.

MCL 211.7dd

Legislative Analyst: Craig Laurie

FISCAL IMPACT

The bill would alter the distribution between local school operating revenue to schools and School Aid Fund payments to those schools by an unknown and likely minimal amount. The bill also could have a secondary impact on homestead property tax refunds of an unknown and likely minimal amount. The number of properties used as a principal residence by a member of the Armed Forces who is absent on active duty is unknown, as is the number of these properties that are being rented or leased.

Under current law, the owner of property not subject to the principal residence exemption is required to pay a levy, usually 18 mills, for school operating purposes. School Aid Fund expenditures make up the difference between locally generated school operating revenue and guaranteed per-pupil funding levels. As a result, as local property owners pay greater amounts for school operating purposes, the State is required to pay less to the school district to meet the funding guarantees.

Both renters and homeowners, with certain income restrictions, are eligible to claim a credit for a portion of property taxes that are paid and that exceed a specified percentage of household income. Landlords are not able to claim the credit on rental properties. As a result, the bill would change the distribution of some property tax credits under the individual income tax and also could alter affected taxpayers' eligibility for the credits.

Fiscal Analyst: David Zin

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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.