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BILL ANALYSIS

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House Bill 5552 (Substitute H-1 as passed by the House)
Sponsor: Representative Peter Pettalia
House Committee: Tax Policy
Senate Committee: finance

Date Completed: 10-1-14

CONTENT

The bill would amend the General Property Tax Act to exclude from the definition of "transfer of ownership" certain conveyances involving residential real property conveyed to a parent, sibling, child, grandparent, stepparent, stepchild, stepsibling, stepgrandparent, stepgrandchild, son- or daughter-in-law, or legal ward (referred to as a "family member" below) of a transferor, the settlor of a trust, a decedent, or the spouse of a transferor, settlor, or decedent.

Under Michigan law, the taxable value of a parcel of property may not increase from one year to the next by more than 5% or the increase in the consumer price index, whichever is lower, until there is a transfer of ownership. At that time, the assessment is "uncapped" and the property is taxed upon its State equalized valuation, which is 50% of its true cash value. (This is commonly referred to as the "pop-up" tax.) The Act defines "transfer of ownership" for this purpose and identifies types of conveyances that do or do not constitute a transfer of ownership.

The bill would exclude the following from the definition of "transfer of ownership", beginning December 31, 2014, if the use of the property did not change following the transfer or conveyance:

-- A transfer of residential real property if the transferee were a family member of the transferor or the transferor's spouse.
-- A conveyance from a trust if the person to whom the property was conveyed were a family member of the settlor or the settlor's spouse.

Currently, "transfer of ownership" does not include a conveyance to a trust if the settlor or the settlor's spouse, or both, conveys the property to the trust and the sole present beneficiary of the trust is the settlor or his or her spouse, or both. Under the bill, beginning December 31, 2014, for residential real property, transfer of ownership also would exclude a conveyance to a trust if the settlor or the settlor's spouse, or both, conveyed the property to the trust and the sole present beneficiary of the trust were a family member of the settlor or the settlor's spouse, and the use of the property did not change following the conveyance.

Conveyances that are considered a transfer of ownership include the following, except as provided for conveyances involving a spouse:

-- A conveyance to a trust.
-- A conveyance by distribution from a trust.
-- A change in the sole present beneficiary or beneficiaries of a trust.

-- A conveyance by distribution under a will or by intestate succession (inheritance in the absence of a valid will).

Under the bill, beginning December 31, 2014, these conveyances would not be transfers of ownership if the property were residential real property, the use of the property did not change following the conveyance or distribution, and one of the following applied:

-- The settlor of a trust or the settlor's spouse, or both, conveyed the property to the trust and the sole present beneficiary or beneficiaries were a family member or family members of the settlor or his or her spouse.
-- The distributee of a conveyance from a trust was a family member of the settlor or settlor's spouse.
-- A change in the sole present beneficiary or beneficiaries of a trust added or substituted a family member of the settlor or settlor's spouse.
-- The distributee of a conveyance under a will or intestate succession was a family member of the decedent or the decedent's spouse.

MCL 211.27a Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would reduce both School Aid Fund and local revenue, and increase School Aid Fund expenditures, relative to current law by an unknown amount. The actual amount of any reduction would depend upon the specific characteristics of affected property. Based on sales statistics for July, the average sale price of a home in Michigan was approximately $140,000. If such a property exhibited a taxable value before the transfer of $123,300 (the median home value in 2010), and 35 mills were levied on the property, the bill would reduce property taxes on the property by approximately $300 per year. While Michigan realty associations reported sales of approximately 127,000 homes in 2013 (which would exclude sales not conducted by a real estate agent registered with a local realty association), the bill is expected to affect a small number of transfers. If the bill affected 500 transfers of property with the characteristics described in the bill, it would reduce State and local property tax revenue by approximately $150,000 per year.

As additional homes sold, the impact of the bill would be cumulative. Assuming the $150,000 per year of revenue reduction remained constant, the total impact would be $150,000 in the first year the bill was effective, $300,000 in the second year, and $450,000 in the third year. Over time, the impact would continue to increase.

To the extent that local school operating revenue was affected by the bill, School Aid Fund expenditures would be increased in order to maintain per-pupil funding guarantees.

Fiscal Analyst: David Zin