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BILL ANALYSIS

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House Bill 4234 (Substitute H-4 as passed by the House)
Sponsor: Representative Glenn Steil, Jr.
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 6-1-04

CONTENT

The bill would amend the General Property Tax Act to exempt from taxation the personal property of a Michigan business and any affiliate of the business, if the value of the property totaled less than \$7,500. The bill would require the State to reimburse local taxing units and the School Aid Fund for tax revenue lost due to the exemption. The exemption would apply for taxes levied after December 31, 2004.

Specifically, if the aggregate State equalized valuation of the personal property identified in the statement required under Section 19 of the Act that was submitted by a person incorporated or doing business in Michigan, together with the personal property identified in any statement required under Section 19 that was filed by any affiliate of that person, totaled less than \$7,500, the personal property identified in the statement filed by the person and the personal property identified in the statement filed by an affiliate of the person would be exempt from the collection of taxes under the Act.

(Under Section 19, a supervisor or other assessing officer must ascertain the taxable property in his or her assessing district and the person to whom it should be assessed. The supervisor or other assessing officer must require any person whom he or she believes has personal property in the person's possession to make an annual statement of all personal property, whether owned by that person or held for the use of another.)

Under the bill, the statement would have to be submitted whether or not the aggregate taxable value of the personal property identified in the statement was less than \$7,500. If the aggregate taxable value of the personal property were less than \$7,500, however, the assessor of the local tax collecting unit in which the personal property was located could elect not to send the statement for three years. If an assessor chose not to send the statement, a personal property statement would not have to be filed.

The State would have to reimburse each local taxing unit that levied an ad valorem property tax in the local tax collecting unit in which any property exempt under the bill was located, for any tax revenue lost as a result of the exemption.

The State also would have to reimburse the School Aid Fund for any tax revenue lost as a result of the exemption. This reimbursement would have to be made from the General Fund.

Proposed MCL 211.9j

Legislative Analyst: Julie Koval

FISCAL IMPACT

The bill would reduce State revenue by at least \$23.9 million per year, based on preliminary estimates from the Michigan Department of Treasury. The bill would exempt all personal property of a business taxpayer from property taxes when the aggregate State equalized valuation of the property totaled less than \$7,500. However, the bill presents some ambiguity about how taxpayers with locations in multiple jurisdictions would be treated under the exemption. Statements required under Section 19 of the General Property Tax Act are submitted to local assessing officers, so it is unclear if the exemption would be based upon all Section 19 reports filed with a given jurisdiction or filed statewide. Similarly, the term "affiliate" is not defined in the General Property Tax Act and other definitions, including those elsewhere in Michigan statute, do not appear to encompass the full range of ownership and branch structures that taxpayers may exhibit. If the language is interpreted to limit the exemption to taxpayers with less than \$7,500 of personal property within the entire State, the bill would reduce revenues by approximately \$23.9 million. Practical difficulties with the local nature of the Section 19 statement and the definition of affiliate may result in the exemption's being claimed by taxpayers who have more than \$7,500 of personal property in Michigan, but less than \$7,500 at a branch or within a specific local unit. To the extent such claims occurred, the bill would reduce revenue by substantially more than \$23.9 million, perhaps reducing revenue by \$100 million or more.

The bill would require the State to reimburse both local units and the School Aid Fund for any revenue loss due to the proposed exemption. Presumably, in cases in which the bill would allow an assessor to elect not to send a personal property statement to a taxpayer, local units still could correctly identify lost revenue the State would need to reimburse.

This estimate is preliminary and will be revised as new information becomes available.

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.