

Senate Fiscal Agency
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SFA**BILL ANALYSIS**

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Senate Bill 801 (as enrolled)
Sponsor: Senator John J. H. Schwarz, M.D.
Senate Committee: Finance
House Committee: Tax Policy

PUBLIC ACT 309 of 2000

Date Completed: 2-2-01

RATIONALE

The General Property Tax Act exempts from the tax property owned by various entities, including memorial homes, clinics and hospitals, and educational organizations. The Act also exempts houses of public worship and any parsonage owned and occupied by a religious society. In addition, property owned by a nonprofit charitable institution while occupied by that institution solely for its incorporated purposes is exempt from property taxes. One nonprofit charitable organization, the Miller Foundation in Battle Creek, requires its chief executive officer, as a condition of employment, to live in a dwelling that is contiguous to the foundation's principal place of business. It was pointed out that, unlike the treatment of a parsonage, there was no specific exemption for a foundation's residence. It was suggested that the Act exempt from taxation a residence owned by a nonprofit charitable institution, under certain conditions.

Further, the Act includes exemptions for property owned by a governmental entity, property owned and occupied by a nonprofit charitable organization, and property owned by a nonprofit charitable organization and leased or otherwise made available to another nonprofit charitable organization. Property owned by a nonprofit charitable organization and leased to a governmental entity, however, was not specifically exempt from the tax. The absence of such an exemption was the subject of a decision last year by the Michigan Tax Tribunal (*Wellness Foundation v City of Battle Creek*, March 27, 2000). The Tribunal found that property owned by the nonprofit Wellness Foundation of Battle Creek and leased to the Calhoun County Community Mental Health Authority for the purpose of providing mental health services was not exempt from property taxes under the Act. The Tribunal said that while property owned by one nonprofit organization and leased to another is exempt from the property tax, the exemption did not apply in this case because the mental health authority was a governmental entity and not a nonprofit organization. It was suggested that, under certain conditions, an exemption be allowed when a nonprofit charitable organization makes its property available to a governmental entity.

CONTENT

The bill amended the General Property Tax Act to exempt from the tax, if authorized by a resolution of the local tax collecting unit in which the property is located, real or personal property owned by a nonprofit charitable institution that is occupied and used by the institution's chief executive officer, as his or her principal residence as a condition of employment. The property must be contiguous to real property that contains the nonprofit charitable institution's principal place of business.

Further, the bill provides that for taxes levied after December 31, 1997, real or personal property owned by a nonprofit charitable institution or charitable trust that is leased, loaned, or otherwise made available to a governmental entity is exempt from the tax if both of the following conditions are satisfied:

- The real or personal property would be exempt from the collection of taxes under Section 7m of the Act if the property were owned or were being acquired pursuant to an installment purchase agreement by the lessee governmental entity. (Section 7m exempts from the tax property owned by, or being acquired pursuant to an installment purchase agreement by, a local unit for use for public purposes.)

- The real or personal property would be exempt from the collection of taxes if occupied by the lessor nonprofit charitable institution or charitable trust solely for the purposes for which the institution was organized or the trust was established.

Under the bill, "governmental entity" means the State or Federal government or an agency, department, division, board, bureau, or authority of the State or Federal government; a county, city, township, village, local or intermediate school district, or municipal corporation; a public institution of higher education, including a public school academy, community or junior college, or State four-year institution of higher education; or any other authority or public body created under State law.

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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

The bill exempts from the property tax the property of a nonprofit charitable organization used by its chief executive officer as the officer's principal residence. This exemption is similar to the one already provided by the Act for a parsonage occupied by a member of the clergy next to his or her house of worship, and is consistent with the general tax exemptions provided under the Act to various religious, charitable, educational, and benevolent organizations. While the bill benefits the Miller Foundation in Battle Creek, other nonprofit charitable institutions also may take advantage of the additional exemption, if they can obtain the approval of their local taxing unit for the exemption.

Supporting Argument

The bill effectively voids a recent ruling of the Michigan Tax Tribunal that property leased by a nonprofit organization to a community mental health authority was not exempt from the property tax. Reportedly, this type of leasing arrangement is common in the State and the ruling would have imposed unexpected new costs on public health and public mental health agencies. Cooperative arrangements between nonprofit organizations and government agencies are beneficial and ought to be encouraged. By taxing the property of a nonprofit charitable organization leased to a governmental entity, but exempting the property of a nonprofit organization, a governmental entity, and a nonprofit leased to another nonprofit, the Act was inconsistent.

Opposing Argument

Individually, this bill will have minimal impact on the property tax collections of local units; however, the bill will add yet more exemptions to the long list found in the Act. Over time, the collective effect of these exemptions is a significant loss of revenue, and administrative problems for local assessors.

Response: The approval of a local taxing unit is required for the exemption of a residence owned by a nonprofit charitable organization.

Legislative Analyst: G. Towne

FISCAL IMPACT

The bill will potentially result in only a minimal reduction (probably well under \$1 million) in the property tax revenue received by State government and selected local governments, including Battle Creek.

Fiscal Analyst: J. Wortley

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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.