Frequently Asked Questions
Neighborhood Enterprise Zone (NEZ) Act
(PA 147 of 1992, as amended)

The following frequently asked questions are being provided as a service to assessors and taxpayers to better inform them about the administration of Public Act 147 of 1992, as amended.

***Note:* The information contained in these frequently asked questions constitutes an analysis of one or more statutes and not legal advice. Since the analysis is limited to general statutory requirements, individual facts may result in different conclusions being reached. Therefore, individuals may wish to consult legal counsel.**

1. What is a Neighborhood Enterprise Zone (NEZ) Exemption?

The Neighborhood Enterprise Zone Act, PA 147 of 1992, as amended, provides tax exemptions for the development and rehabilitation of residential housing located within eligible distressed communities. The local governmental unit (LGU) in these eligible distressed areas can designate areas as NEZs. Only facilities located within these established NEZs are eligible for NEZ certificates. New and rehabilitated facilities applications are filed, reviewed and approved by the LGU, but are also subject to review at the State level by the Property Services Division. The State Tax Commission (STC) is responsible for final approval and issuance of new and rehabilitated facility certificates. Exemptions for new and rehabilitated facilities are not effective until approved by the STC. NEZ Homestead applications are filed, reviewed and approved by the LGU.

2. Who determines when and where to establish a Neighborhood Enterprise Zone (NEZ)?

NEZs are established by a local governmental unit (LGU) who meets the qualifications of an “Eligible Distressed Community” and desires to provide for the development and rehabilitation of residential housing. The LGU determines the areas to be established as an NEZ. Each NEZ must contain not less than 10 platted parcels of land which are compact and contiguous, or if located in a downtown revitalization district may contain less than 10 platted parcels if the platted parcels together contain 10 or more facilities. An NEZ containing new facilities, rehabilitated facilities, or a combination of both shall not exceed 15% of the total acreage contained with the boundaries of the LGU. An NEZ containing only homestead facilities shall not exceed 10% of the total acreage contained within the boundaries of the LGU. If approved by the board of commissioners of the county or a county executive, if the county has an elected or appointed county executive, the homestead facility NEZ can contain up to 15% of the total acreage of the LGU.

3. What is the difference between a Neighborhood Enterprise Zone and a Neighborhood Enterprise “Homestead” Zone?

A Neighborhood Enterprise Zone (NEZ) covers new facilities and/or rehabilitated facility projects. A Neighborhood Enterprise “Homestead” Zone covers only pre-existing residential property, located within a subdivision platted pursuant to state law before January 1, 1968.

4. Who can apply for a Neighborhood Enterprise Zone (NEZ) Exemption Certificate?

A Developer/Builder or owner may file an application for an NEZ Certificate, Form 4775, for a "new" or a "rehabilitated" facility project within an NEZ before a building permit is issued. In some cases, an application would still qualify despite the building permit being issued before the Form 4775 was filed. See MCL 207.774 for specifics.

A homeowner of a principal residence within an NEZ may file an application for NEZ "Homestead" Certificate, Form 2704B.

5. How do I apply for a Neighborhood Enterprise Zone Certificate?

An application for the Neighborhood Enterprise Zone (NEZ) Certificate can be found at the Michigan Department of Treasury website:
www.michigan.gov/propertytaxexemptions.

New or Rehabilitated Facility:

The application and required attachments are filed with the clerk of the local governmental unit (LGU) in which the facility is located. The clerk of the LGU reviews the application package and if complete, submits the application package to the local governing body for approval or denial by resolution. If approved, the application package, including a copy of the LGU resolution approving the application and setting the number of years the exemption is approved, is sent by the LGU clerk to the State of Michigan for further processing. The State Tax Commission (STC), upon receiving a complete application, will take action to approve or deny the issuance of a certificate of exemption. Exemptions are not effective until approved by the State Tax Commission.

Additional required attachments include:

New Facility:

a. A copy of the legal description of the real property with the parcel identification number of the property for each house/condo being built;

b. A clear and legible copy of the building permit;

c. A copy of the new owner's Deed showing ownership with the date the deed was executed and signatures;

d. A copy of the Certificate of Occupancy and Compliance; and

e. A copy of the Principal Residence Exemption (PRE) Affidavit (Form 2368), filed with the LGU assessor (black out Social Security Numbers).

<u>Rehabilitated Facility:</u>

a. Documentation providing the cost requirements of MCL 207.772(m);

b. A copy of the legal description of the real property with the parcel identification number of the property for each house/condo being built or rehabilitated;

c. A clear and legible copy of the building permit or trade permit;

d. A copy of the new owner's Deed showing ownership with the date the deed was executed and signatures; and

e. A Certificate of Occupancy and Compliance or documentation from the local building official certifying that the building meets minimum building codes for the LGU.

When a facility with an existing NEZ certificate is purchased and/or transferred the certificate may be eligible for transfer to the new owner by submitting the application Form 4775 with the revised information and a copy of the new owner's Deed directly to the Property Services Division. Additional documentation may be required.

<u>Homestead Facility:</u>

The application and required attachments are filed with the clerk of the local governmental unit (LGU) in which the facility is located. The LGU clerk reviews the application package and if complete, submits the application package to the local governing body for approval or denial by resolution. If "approved," the application package, including a copy of the LGU resolution approving the application and setting the number of years for exemption, is sent by the LGU clerk to the LGU assessor for further processing. The LGU assessor, upon receiving a complete application, will take action to approve or deny the issuance of a certificate of exemption. Exemptions are not effective until approved by the LGU assessor.

Additional required attachments include:

a. A copy of the legal description of the real property with the parcel identification number; and

b. A copy of the Warranty Deed or Document of Conveyance.

6. Are there provisions in the application process which are time sensitive?

Yes. An application for a Neighborhood Enterprise Zone (NEZ) Certificate must be filed with the clerk of the LGU for a facility located in an established NEZ <u>before</u> a building permit is issued for the new construction or rehabilitation of the facility. In some cases, an application would still qualify despite the building permit being issued before the Form 4775 was filed. See MCL 207.774 for specifics.

7. Who determines if a facility qualifies for a Neighborhood Enterprise Zone (NEZ) Certificate?

Initially, the determination is made when the application is filed and reviewed by the local governmental unit (LGU). However, the LGU's determination is reviewed and either approved, modified, or denied by the State Tax Commission (STC).

8. Can an application for a Neighborhood Enterprise Zone (NEZ) Certificate be denied?

Yes. An application can be denied at the local governmental unit (LGU) or by the State Tax Commission (STC) if all of the requirements were not met by the applicant.

9. Can a decision of the State Tax Commission (STC) regarding a Neighborhood Enterprise Zone (NEZ) Certificate be appealed?

Yes. A party aggrieved by the issuance, refusal to issue, revocation, transfer or modification of an NEZ exemption may appeal a final decision of the State Tax Commission by filing a petition with the Michigan Tax Tribunal, www.michigan.gov/taxtrib, within 35 days. MCL 205.735a (6).

10. What is the term of a Neighborhood Enterprise Zone Exemption Certificate?

New, rehabilitated, and homestead facilities may receive a term of exemption from 6-15 years.

"Rehabilitated facilities in a qualified historic building" may receive a term of exemption from 11-17 years. However, if all or a portion of the rehabilitated facility is not transferred or sold to a person who will utilize the facility as his/her principal residence within 12 years of the effective date of the NEZ Certificate, the certificate is revoked.

11. What determines the starting date of a Neighborhood Enterprise Zone (NEZ) Certificate for "new" and "rehabilitated facilities"?

The effective date of an NEZ Certificate is December 31st in the year in which the new facility or rehabilitated facility is substantially completed and for a new facility occupied by an owner as a principal residence.

In certain circumstances, the owner of a "new facility" can request the effective date of the NEZ Certificate to be December 31st in the year immediately preceding the date of occupancy by the owner as a principal residence.

Upon the request of an owner of a "rehabilitated facility," the effective date of the NEZ Certificate shall be December 31st in the year immediately preceding the date the rehabilitated facility is substantially completed.

12. Can the duration of a Neighborhood Enterprise Zone (NEZ) Certificate be extended?

Perhaps. An NEZ Certificate issued prior to January 1, 2006, may receive an extension for an additional 3 years, up to a maximum of 15 years, if approved by a resolution of the LGU prior to the certificate expiration. "Rehabilitated facilities" in a qualified historic building may receive a term of up to 17 years.

13. How is the Neighborhood Enterprise Zone (NEZ) Tax computed for a "rehabilitated facility"?

A parcel of property with an existing NEZ Certificate for a "rehabilitated facility" will have two assessments. The land will be assessed on the regular ad valorem assessment roll, while the building will have an assessment on the NEZ specific tax roll.

The property's land assessment on the ad valorem roll may be adjusted by the March Board of Review. However, the NEZ tax roll assessment of a property with a "rehabilitated" certificate CANNOT have its assessment altered by the Board of Review during the life of the certificate.

The calculation of the NEZ taxes for a "rehabilitated facility" depends upon the date of issuance of the NEZ Certificate.

For rehabilitated facility certificates issued prior to January 1, 2006 for a term of 6-12 years:

> The NEZ tax is determined by multiplying the total mills levied as ad valorem taxes by the taxable value of the "rehabilitated facility", not including land, for the tax year immediately preceding the effective date of the certificate until the certificate expires.

For rehabilitated facility certificates issued prior to January 1, 2006 for a term of 6-12 years, which have been granted a three-year extension (Question 10) of the term of the certificate:

> During the last three years of the term of the extended certificate, the tax calculation changes to the following:
>
> > In the tax year <u>two</u> years before the certificate expires, the NEZ tax is the sum of:

a. the current taxable value of the facility, excluding land, multiplied by **five-eighths (5/8)** the number of mills levied by the LGU and the county for operating purposes (excluding debt), plus

b. the taxable value of the facility, excluding land, multiplied by the remaining total mills levied as ad valorem taxes.

In the tax year one year before the certificate expires, the NEZ tax is the sum of:

a. the current taxable value of the facility, excluding land, multiplied by **three-fourths (3/4)** the number of mills levied by the LGU and the county for operating purposes (excluding debt), plus

b. the taxable value of the facility, excluding land, multiplied by the remaining total mills levied as ad valorem taxes.

In the tax year the certificate expires, the NEZ tax is the sum of:

a. the current taxable value of the facility, excluding land, multiplied by **seven-eighths (7/8)** the number of mills levied by the LGU and the county for operating purposes (excluding debt), plus

b. the taxable value of the facility, excluding land, multiplied by the remaining total mills levied as ad valorem taxes.

For rehabilitated facility certificates issued after December 31, 2005:

The NEZ tax is determined by multiplying the total mills collected under the general property tax act by the taxable value of the "rehabilitated facility", not including land, for the tax year immediately preceding the effective date of the certificate, until the last three years before the certificate expires.

During the last three years of the term of the extended certificate, the tax calculation changes to the following:

In the tax year two years before the certificate expires, the NEZ tax is the sum of:

a. the current taxable value of the facility, excluding land, multiplied by **five-eighths (5/8)** the number of mills levied by the LGU and the county for operating purposes (excluding debt), plus

b. the taxable value of the facility, excluding land, multiplied by the remaining total mills levied as ad valorem taxes.

In the tax year one year before the certificate expires, the NEZ tax is the sum of:

a. the current taxable value of the facility, excluding land, multiplied by **three-fourths (3/4)** the number of mills levied by the LGU and the county for operating purposes (excluding debt), plus

b. the taxable value of the facility, excluding land, multiplied by the remaining total mills levied as ad valorem taxes.

In the tax year the certificate expires, the NEZ tax is the sum of:

a. the current taxable value of the facility, excluding land, multiplied by **seven-eighths (7/8)** the number of mills levied by the LGU and the county for operating purposes (excluding debt), plus

b. the taxable value of the facility, excluding land, multiplied by the remaining total mills levied as ad valorem taxes.

14. How is the Neighborhood Enterprise Zone (NEZ) Tax computed for a "new facility"?

A parcel of property holding an NEZ Certificate for a "new facility" will have two assessments. The land will be assessed on the regular ad valorem assessment roll, while the building will have an assessment on the NEZ specific tax roll.

Both the property's land assessment on the ad valorem roll and the NEZ tax roll assessment of a property with a "new facility" certificate may be adjusted by the March Board of Review.

The calculation of the NEZ taxes for a "new facility" depends on the date of issuance of the NEZ Certificate.

For new facility certificates issued prior to January 1, 2006, for a term of 6-12 years:

The NEZ tax is determined by multiplying one-half (1/2) the Principal Residence Exemption state average mills levied in this state in the immediately preceding calendar year by the taxable value of the "new facility", not including land, until the certificate expires. The Principal Residence Exemption state average tax rate is set by the Michigan Department of Treasury, Assessment and Certification Division on an annual basis.

For new facility certificates issued prior to January 1, 2006, for a term of 6-12 years, which have been granted a three-year extension (Question 10) of the term of the certificate:

During the last three years of the term of the extended certificate, the tax calculation changes to the following:

In the tax year <u>two</u> years before the certificate expires, the NEZ tax is the sum of:

a. the current taxable value of the facility, excluding land, multiplied by **five-eighths (5/8)** the number of mills levied by the LGU and the county for operating purposes (excluding debt), plus

b. the taxable value of the facility, excluding land, multiplied by the remaining total mills levied as ad valorem taxes.

In the tax year <u>one</u> year before the certificate expires, the NEZ tax is the sum of:

a. the current taxable value of the facility, excluding land, multiplied by **three-fourths (3/4)** the number of mills levied by the LGU and the county for operating purposes (excluding debt), plus

b. the taxable value of the facility, excluding land, multiplied by the remaining total mills levied as ad valorem taxes.

In the tax year the certificate expires, the NEZ tax is the sum of:

a. the current taxable value of the facility, excluding land, multiplied by **seven-eighths (7/8)** the number of mills levied by the LGU and the county for operating purposes (excluding debt), plus

b. the taxable value of the facility, excluding land, multiplied by the remaining total mills levied as ad valorem taxes.

For new facility certificates issued after December 31, 2005:

The NEZ tax is determined by multiplying one-half (1/2) the Principal Residence Exemption state average mills levied in this state in the immediately preceding calendar year by the taxable value of the "new facility", not including land, until the last three years before the certificate expires.

During the last three years of the term of the extended certificate, the tax calculation changes to the following:

In the tax year two years before the certificate expires, the NEZ tax is the sum of:

a. the current taxable value of the facility, excluding land, multiplied by **five-eighths (5/8)** the number of mills levied by the LGU and the county for operating purposes (excluding debt), plus

b. the taxable value of the facility, excluding land, multiplied by the remaining total mills levied as ad valorem taxes.

In the tax year one year before the certificate expires, the NEZ tax is the sum of:

a. the current taxable value of the facility, excluding land, multiplied by **three-fourths (3/4)** the number of mills levied by the LGU and the county for operating purposes (excluding debt), plus

b. the taxable value of the facility, excluding land, multiplied by the remaining total mills levied as ad valorem taxes.

In the tax year the certificate expires, the NEZ tax is the sum of:

a. the current taxable value of the facility, excluding land, multiplied by **seven-eighths (7/8)** the number of mills levied by the LGU and the county for operating purposes (excluding debt), plus

b. the taxable value of the facility, excluding land, multiplied by the remaining total mills levied as ad valorem taxes.

15. How is the Neighborhood Enterprise Zone (NEZ) Tax computed for a "Homestead facility?

The NEZ tax for a "homestead facility" NEZ Certificate (issued for a term of 6-15 years), except for the last three years in which the certificate is in effect, is the sum of:

a. the current taxable value of the facility, excluding land, multiplied by **one-half (1/2)** the number of mills levied by the LGU and the county for operating purposes (excluding debt), plus

b. the taxable value of the facility, excluding land, multiplied by the remaining total mills levied as ad valorem taxes.

During the last three years of the certificate, the tax calculation changes to the following:

In the tax year two years before the certificate expires, the NEZ tax is the sum of:

a. the current taxable value of the facility, excluding land, multiplied by **five-eighths (5/8)** the number of mills levied by the LGU and the county for operating purposes (excluding debt), plus

b. the taxable value of the facility, excluding land, multiplied by the remaining total mills levied as ad valorem taxes.

In the tax year one year before the certificate expires, the NEZ tax is the sum of:

a. the current taxable value of the facility, excluding land, multiplied by **three-fourths (3/4)** the number of mills levied by the LGU and the county for operating purposes (excluding debt), plus

b. the taxable value of the facility, excluding land, multiplied by the remaining total mills levied as ad valorem taxes.

In the tax year the certificate expires, the NEZ tax is the sum of:

a. the current taxable value of the facility, excluding land, multiplied by **seven-eighths (7/8)** the number of mills levied by the LGU and the county for operating purposes (excluding debt), plus

b. the taxable value of the facility, excluding land, multiplied by the remaining total mills levied as ad valorem taxes.

16. How many tax bills will I receive?

In both July and December, you will receive two tax bills: one for the structure with the Neighborhood Enterprise Zone (NEZ) Certificate and one for the land which will be at the full millage rate.

17. What are the different types of Neighborhood Enterprise Zone (NEZ) Certificates?

There are three types of NEZ Certificates:

"New facility" is an exemption for a new structure or portion of a new structure, the primary purpose of which is residential housing which will be occupied by its owner as his/her principal residence.

"Rehabilitated facility" is an exemption for an existing structure or a portion of an existing structure, the primary purpose is residential housing which can be owner or non-owner occupied, meeting specific requirements for improvement investment and true cash value.

"Homestead facility" is an exemption for an existing structure, purchased by or transferred to an owner after December 31, 1997, the primary purpose of which is residential housing occupied by the owner as his/her principal residence and is located within a subdivision platted pursuant to state law before January 1, 1968.

18. Are minimum investments for improvements required?

New facilities have no minimum or maximum investment required.

Rehabilitated facilities, for an existing structure with a current true cash value (TCV) of $80,000 or less per unit, a minimum investment is required:

a. if the rehabilitation is completed by a contractor, $5,000 per owner-occupied unit or 50% of the TCV, whichever is less, or $7,500 per non-owner-occupied unit or 50% of the TCV, whichever is less; and

b. if the improvements are completed by the owner, $3,000 per owner-occupied unit or $4,500 per non-owner-occupied unit.

Homestead facilities require an owner committed to investing a minimum of $500 in the first 3 years of the term of the certificate.

19. Can the ending date of a Neighborhood Enterprise Zone (NEZ) Certificate be changed after it is issued by the State Tax Commission (STC)?

Yes. An NEZ Certificate must be issued by the STC for the number of years granted by the local governmental unit's resolution of approval. The Property Services Division staff determines the ending date of a certificate by the language in the local governmental unit (LGU) resolution approving the application. If an NEZ Certificate was issued before January 1, 2006, the LGU, may, by resolution, extend the certificate for an additional 3 years, up to a maximum of 15 years (or 17 years for a rehabilitated facility in a qualified historic building), before the original certificate expires.

20. Can I get a refund for prior year's taxes that I have already paid after I get a Neighborhood Enterprise Zone (NEZ) Certificate?

Perhaps. The "new" or "rehabilitated" type certificate may be issued for a previous tax year. Check with the local governmental unit to ascertain if a refund is due.

The answer is NO for "homestead" certificates as the effective date begins December 31st of the year in which the certificate is approved and does not exempt previous tax years.

21. What happens when an incomplete application for a Neighborhood Enterprise Zone (NEZ) Certificate is received?

For new and rehabilitated facilities, the applicant will be contacted to submit the required items. If the required items are not submitted within 30 days, the application may be dismissed as inactive.

22. If I have an existing home, a newly-built home, or a recently rehabilitated home in a Neighborhood Enterprise Zone (NEZ), but have never applied for an exemption, will my home qualify?

Perhaps. For eligibility of homestead facilities, check with the local governmental unit (LGU). For eligibility of new or rehabilitated facilities, check with the Property Services Division.

23. Is there a limit on the amount of time that an applicant can take to complete a project?

Yes. MCL 207.781 states that a certificate shall expire if the owner fails to complete the filing requirements under Section 10 within 2 years of the date the certificate was issued. The holder of the certificate may request in writing to the State Tax Commission (STC), a 1-year automatic extension of the certificate if the owner has proceeded in good faith with the construction or rehabilitation of the facility in a manner consistent with the purposes of this act and the delay in completion or occupancy by an owner is due to circumstances beyond the control of the holder of the certificate. The certificate holder will receive notice of the expiration date when the certificate has been approved, but before the Section 10 requirements are met.

24. I received a notice that my Neighborhood Enterprise Zone (NEZ) Certificate was approved, but has been held in abeyance. What does that mean?

Upon initial review of the application and the supporting documentation, the facility you applied for meets the requirements of the act. However, the documentation required in Section 10 must be filed before the certificate expires (2 years, or with written request of extension, 3 years from the date of approval) to complete the process and add your facility to the NEZ tax rolls. If your certificate expires without completing the requirements of Section 10, the facility will no longer be eligible for the exemption.

25. Can a Neighborhood Enterprise Zone (NEZ) Exemption Certificate be transferred to a new owner?

Yes. If the homestead, new, or rehabilitated facility is sold or transferred to another owner who otherwise complies with the requirements of the act and, for a homestead or new facility, uses the facility as a principal residence, the certificate shall remain in effect.

A transfer of the certificate for a "new" or "rehabilitated facility", for the term remaining on the certificate, is initiated by filing Form 4775 with the Property Services Division. Transfers of certificates for "Homestead facilities" are handled by the local governmental unit.

26. Can a Neighborhood Enterprise Zone (NEZ) Certificate be revoked? If yes, who holds the authority to do so?

Yes. An NEZ Certificate may be revoked if one of the following occurs:

a. Written request is made to the State Tax Commission (via certified mail) by the holder of the certificate;

b. The certificate for a "homestead or new facility" is automatically revoked if the facility is no longer occupied by the owner as their principal residence.

c. Delinquent taxes on either the NEZ tax or the ad valorem property tax.

d. The "homestead", "new" or "rehabilitated" facility ceases to have residential housing as its primary purpose residential housing.

e. Noncompliance of local governmental unit's local construction, building or safety codes.

The revocation of an NEZ Certificate is effective beginning December 31st following the date of the State Tax Commission order. Or, if automatically revoked, it is effective December 31st following the automatic revocation.

27. When does the revocation of a Neighborhood Enterprise Zone (NEZ) Certificate take effect?

In most cases, the revocation of an NEZ Certificate is effective the December 31st of the year in which the State Tax Commission (STC) revoked the certificate. However, if the certificate is automatically revoked because the homestead facility or new facility is no longer a homestead, the revocation is effective December 31st following the automatic revocation.

28. What is required of the Local Governmental Unit (LGU) regarding the yearly status reporting of Neighborhood Enterprise Zone (NEZ) Homestead Certificates to the State Tax Commission (STC)?

Not later than June 15th of each year, each qualified LGU granting NEZ Homestead Certificates shall report to the STC on the status of each exemption. The report must include the number of certificates issued, the date of issuance of each certificate, the name and address of the holder of each certificate, the legal description of the real property of the homestead facility for which each certificate was issued, and the taxable value for each homestead facility for which a certificate was issued. For each certificate that was transferred, the report must include the date of each transfer, the name and address of the former holder of the certificate, and the name and address of the current holder of the certificate. For each certificate that was revoked pursuant to Section 11, the report must include the reason for the revocation, the date of the revocation, and the name and address of the holder of each certificate that was revoked. The report must also contain the impact on neighborhood revitalization in the LGU, including the estimated tax savings for all new and current certificate holders.

29. Are there any other parties I may wish to notify after I receive the Neighborhood Enterprise Zone (NEZ) certificate?

1. Your mortgage company if your taxes are escrowed.
   The local governmental unit treasurer's office to request their refund process, if applicable (new or rehabilitated facilities).
2. The county treasurer's office to verify the property identification numbers, verify that the land on the ad valorem tax roll and the residence on the NEZ specific tax roll have been adjusted and that the taxes have been paid in full.

30. Where can I obtain copies of previously issued Neighborhood Enterprise Zone Exemption Certificates?

Copies of certificates acted upon by the State Tax Commission after January 1, 2013, are available on the Department of Treasury website at: www.michigan.gov/propertytaxexemptions. Choose the exemption program under which the certificate was issued. Within the "Certificate Activity" link, the certificates are listed according to the date they were acted upon.

31. Can parking improvements be included within a Neighborhood Enterprise Zone Exemption (NEZ) Certificate application and are they eligible to receive the exemption benefits?

If the NEZ facility has parking improvements, these improvements can only receive the NEZ benefit if they are part of the same parcel as the facility. If the parking improvements are on a separate parcel, they are taxed on the ad valorem roll and do not receive the NEZ benefit.

Whether or not parking improvements are included on the main facility parcel, can be confirmed by the local governmental unit assessor.