

STATE OF MICHIGAN



JOHN ENGLER, Governor

DEPARTMENT OF TREASURY

DOUGLAS B. ROBERTS, State Treasurer

STATE TAX COMMISSION

4th Floor Treasury Building
Lansing, Michigan 48922 - Telephone (517) 373-0500

COMMISSION MEMBERS

ROLAND C. ANDERSEN, Acting Chair
LESLEY F. HOLT
LEROY J. NELSON

DATE: April 7, 1994

TO: Assessors
Equalization Directors
Supervisors

RE: 1994 TAX BILL AND TAX ROLL PROCEDURES

On March 15, 1994 the voters of the State of Michigan approved Proposal A which authorizes a 6% sales tax which in turn causes certain provisions of Public Acts 312 and 331 of 1993 to take effect. These provisions will cause some significant changes to the property tax billing and tax roll procedures.

"STATE EDUCATION" TAX

Section 3 of 1993 PA 331 authorizes the levy of a 6 mill "State Education" tax on all property except that which is exempt by law from ad valorem property taxes and except properties assessed by the State through the provisions of MCL 207.1 to 207.21 (i.e. State-Assessed properties). The homestead exemption does not apply to the "State Education" tax.

"SCHOOL OPERATING"

Section 1211(1) of 1993 PA 312 states that beginning in 1994, the board of a school district shall levy not more than 18 mills for school operating purposes or the number of mills levied in 1993 whichever is less on non-homestead property only in order to be eligible to receive funds under the State School Aid Act of 1979. These mills will be referred to as "School Operating" mills and are levied under the General Property Tax Act. The Michigan Department of Treasury will certify no later than June 15, 1994, the number of "School Operating" mills the school district may levy in 1994. Exempt homestead property is not subject to the levy of these 18 mills (or less) of "School Operating" millage.

"SUPPLEMENTAL" (HOLD HARMLESS)

Section 1211(3) of 1993 PA 312 states that beginning in 1994, a local school district with a foundation allowance of more than \$6500 for the 1994-95 fiscal year may levy, with the approval of the school electors, up to 18 mills on homestead property only until the school district's combined state and local revenue per

ASSESSORS, EQUALIZATION DIRECTORS, SUPERVISORS

APRIL 7, 1994

Page Two

pupil for the school fiscal year ending in 1995 equals the school district's foundation allowance. If this requires more than 18 mills on homestead property only, the additional millage will be levied on all property. The millage discussed in this paragraph will be called "Supplemental" millage. This has also been referred to as "Hold Harmless" millage. The Michigan Department of Treasury will certify no later than June 15, 1994, the number of "Supplemental" mills the school district may levy in 1994. The "Supplemental" millage is considered to be approved by the school electors if there is millage approved by the electors prior to January 1, 1994 for which the authorization has not yet expired.

"LOCAL ENHANCEMENT"

Section 1211c of 1993 PA 312 states that for taxes levied in 1994 through 1996, a school district may levy up to 3 mills for operating purposes if approved by the school electors after 1993. This millage will be referred to as "Local Enhancement" millage. "Local Enhancement" millage is levied against all property.

OTHER MILLAGES

All millages levied by an intermediate school district are levied against all property.

Section 1211(8)(e) of 1993 PA 312 states that the following millages levied by a local school district are not part of the 18 mills (or less) of "School Operating" and are therefore levied against all property.

- 1) Taxes levied by a school district for operating a community college under Part 25 of the School Code of 1976. This applies only to the Dearborn and Highland Park School Districts.
- 2) Taxes levied by a school district under section 380.1212 of the Michigan Compiled Laws for the purpose of creating a building and site sinking fund.
- 3) Taxes levied by a school district under section 380.1356(4) of the Michigan Compiled Laws for eliminating an operating deficit.
- 4) Taxes levied for operation of a library under section 260 or 1451 or for operation of a library established pursuant to Act No. 261 of the Public Acts of 1913, being sections 397.261 to 397.262 of the Michigan Compiled Laws, that were not included in the operating millage reported by the district to the department as of April 1, 1993. However, a district may report to the department not later than April 1, 1994 the number of mills it levied in 1993 for a purpose described in this subparagraph that the school district does not want considered as operating millage and then that number of mills is excluded from taxes levied for school operating purposes.

ASSESSORS, EQUALIZATION DIRECTORS, SUPERVISORS

APRIL 7, 1994

Page Three

- 5) Taxes paid by a school district of the first class (Detroit Public Schools) to a public library commission pursuant to section 11(4) of the property tax limitation act, Act No. 62 of the Public Acts of 1933, being section 211.211 of the Michigan Compiled Laws.

In order to implement the levy of the various taxes discussed above, certain changes will need to be made to the present tax billing and tax roll procedures. Many of these changes are caused by the exemption of homesteads from the "School Operating" millage levied by local school districts and the fact that only homesteads are subject to the levy of the first 18 mills of "Supplemental" millage. These changes are complicated by the fact that some properties are only partially exempt as homesteads. For example, a duplex which is only partially occupied by its owner is only partially exempt.

STATE TAX COMMISSION DIRECTIVES

The following are directives of the State Tax Commission regarding the tax billing and/or tax roll procedures which are required to be implemented for the 1994 tax bills and/or tax rolls:

- 1) The tax bill and the tax roll must show the percent of the state equalized value of each property which has been declared as exempt as a homestead. For most improved residential properties this will be 100%. The following is suggested language: "% Declared As Homestead: _____" This percent will be taken from Section 3 of the Homestead Exemption affidavit when there is a partial exemption. If the number shown on the affidavit includes a fraction, round it up to the nearest whole number.
- 2) Both the tax bill and the tax roll must include space for the "State Education" Tax. This must be kept separate from other taxes. Section 5 of 1993 PA 331 states that the "State Education" Tax will be collected and distributed by the local tax collecting unit at the same time as other taxes levied by the local school district for school operating purposes. Further information concerning the collection and distribution of the "State Education" Tax will be provided by the Michigan Department of Treasury.
- 3) A system must be developed to identify which properties have either a total homestead exemption or a partial homestead exemption. It will also be necessary to be able to total the homestead tax base (defined on page 5) for audit and reporting purposes.
- 4) Each property may have only one tax bill for the July billing and one bill for the December billing. There may not be separate tax bills for the homestead portion of a property and the non-homestead portion.

STATE TAX COMMISSION RECOMMENDATIONS

The following are recommendations of the State Tax Commission regarding the tax billing and/or tax roll procedures:

- 1) It is recommended that there be separate calculations on the tax bill for "School Operating", "Supplemental" (in school districts where there is a foundation allowance of more than \$6500), and other local school millages including debt and the "Enhancement" millage. This is suggested because "School Operating" is levied only against non-homestead property, the "Supplemental" tax up to 18 mills is levied only against homesteads¹ and the other local school millages are levied against all property. School districts which do not levy "Supplemental" or "Enhancement" millages should not show separate lines for these items.
- 2) It is recommended that a method be developed for noting on the tax bill the amount of SEV against which the "School Operating" and "Supplemental" millages are levied. This is needed for properties whose state equalized value is only partially exempt as homesteads to assist the taxpayer in figuring out how the calculations for these two items were made. One method of accomplishing this would be to footnote "School Operating" with a note saying "Levied against non-homestead property only" and to footnote the first 18 mills of "Supplemental" with a note saying "Levied against homestead property only."
- 3) It is recommended that, for properties which are 100% exempt as homesteads, the amount of "School Operating" tax on the tax bill be shown as "Exempt" or as an amount of "0". If a tax bill showed no entry at all for the "School Operating" Tax amount, it might appear to the taxpayer that a mistake has been made.

The following definitions and formulas will help in the calculation of the various taxes.

DEFINITIONS

SEV = STATE EQUALIZED VALUE

% DECLARED AS HOMESTEAD. This may be 100% or some percentage less than 100% for properties which include non-homestead uses. The % declared as homestead can be found on Section 3 of the homestead exemption affidavit filed by the owner when

¹ If the number of "Supplemental" mills exceed 18, the amount in excess of 18 is levied against all property.

ASSESSORS, EQUALIZATION DIRECTORS, SUPERVISORS

APRIL 7, 1994

Page Five

there is a partial exemption. If the number shown on the affidavit includes a fraction, round it up to the nearest whole number.

HOMESTEAD TAX BASE = SEV x % DECLARED AS HOMESTEAD. For homestead exempt property this will usually be the same as SEV, but will sometimes be less than the SEV for partially exempt properties. Non-homestead properties will have a Homestead Tax Base of zero. Homesteads are exempt from the 18 mills (or less) of the "School Operating" tax. The Homestead Tax Base is the same as the Homestead Exemption amount.

NON-HOMESTEAD TAX BASE = SEV - HOMESTEAD TAX BASE. For most commercial and industrial properties, the Non-Homestead Tax Base is the same as SEV. Some properties are partially exempt as homesteads and therefore include some Non-Homestead Tax Base.

FORMULAS

The following are formulas for calculating the various taxes discussed earlier.

| | | |
|-------------------------|---|---|
| "State Education" Tax | = | SEV x 6 mills |
| "School Operating" Tax | = | Non-Homestead Tax Base x 18 mills(or less) |
| "Supplemental" Tax | = | (Homestead Tax Base x up to 18 mills) + (SEV x number of mills over 18) |
| "Local Enhancement" Tax | = | SEV x up to 3 mills |

EXAMPLE

The following example may be helpful: Part of a home with an SEV of \$100,000 is used exclusively as a beauty shop. The owner files an affidavit and declares 75% as homestead. The Department of Treasury has certified that 18 mills of "School Operating" may be levied if authorized. This property is located in a school district which has a foundation allowance of more than \$6500. The Department of Treasury has certified that 5 mills of "Supplemental Tax" may be levied if authorized. An election was held in 1994 and the voters approved 2 mills for "Enhancement".

ASSESSORS, EQUALIZATION DIRECTORS, SUPERVISORS
APRIL 7, 1994
Page Six

SEV = 100,000

| | | | | | | |
|-------------------------|---|---------|---|----------|------|--------|
| Homestead Tax Base | = | 100,000 | x | 75% | = | 75,000 |
| Non-Homestead Tax Base | = | 100,000 | - | 75,000 | = | 25,000 |
| "State Education" Tax | = | 100,000 | x | 6 mills | = \$ | 600 |
| "School Operating" Tax | = | 25,000 | x | 18 mills | = \$ | 450 |
| "Supplemental" Tax | = | 75,000 | x | 5 mills | = \$ | 375 |
| "Local Enhancement" Tax | = | 100,000 | x | 2 mills | = \$ | 200 |