

# property Taxfacts

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## THE MORE THINGS CHANGE.....

There has been a flurry of activity in the property tax arena these past few months. We thought you'd like to see some of what's been happening.

**Michigan**—As part of the executive budget proposal for the 2003 fiscal year, the former Governor of Michigan, John Engler proposed moving the collection of all state education taxes to the summer levy. The Legislature supported the accelerated collection, which Engler signed into law in April 2002. PA244 of 2002 amended the State Education Tax (SET) and made three significant changes:

- ✓ Beginning in 2003, all taxpayers will pay the tax entirely as a summer levy
- ✓ For 2003 ONLY, the rate for the tax will be 5 mills or 5% per \$1000
- ✓ Some taxpayers will be receiving their tax bill from a different tax collector than usual

The summer levy was chosen because the fiscal year is October 1<sup>st</sup> through September 30<sup>th</sup>. With the summer levy in place, this will bring the state education taxes levied in July 2003 into the state's 2003 fiscal year budget rather than the 2004 fiscal year.

The SET funds the elementary and secondary schools. Depending on where the taxpayer was located, this tax was paid entirely as part of the winter bill, as part of their summer bill or half in the summer and the remainder in the winter. Beginning in 2003 the levy makes the tax payable entirely in the summer to meet the fiscal year budget requirements. In 2004, the mill or rate will increase back to 6% instead of the 5% in 2003.

Deferment of the tax can be obtained with certain qualifications and eligibility. There are two types of properties eligible for deferment. The agricultural real property owner and the property owner with income of \$25,000 or less and has a permanent disability, widow or widower, a veteran, a serviceperson or is at least 62.

Properties with IFT Certificates that have questions or concerns regarding their facilities can call our office or contact Ms. Dianne Wright at the Michigan State Tax Commission office.

**Mississippi**—A board of supervisors may grant a seven-year Mississippi county property tax exemption, excluding school district taxes, for any privately owned new structure that is constructed in a designated central business district if *written application* for the exemption has been made to, and approved by, the municipality in which the district is located.

**Nevada**—Effective July 1, 2003, requirements for obtaining an abatement against Nevada *property tax*, business privilege tax or local school support tax for a new or expanding business are decreased. The requirements depend on the type of expansion, the size of the investment, the population of the town the entity is located in and lease provisions.

**South Carolina**-- Effective January 1, 2005, for purposes of assessing the property of merchants and related businesses, the Department of Revenue and all county auditors will follow the classifications of the most recent North American Classifications System Manual. Previously, the Department used the classifications in the Standard Industrial Classifications Manual.

Your window of opportunity to file a protest against a property tax assessment made by a division of the Department of Revenue has expanded to 90 days (previously 30 days) after the date of the property tax assessment notice. If the taxpayer does not receive a property tax notice, a protest must be filed within 90 days (previously 30) after the notice is mailed. If a division denies a property tax exemption, a protest must be filed within 90 days (previously 30) after the date the notice of denial is mailed to the taxpayer.

**Wisconsin** - Legislation was proposed to amend the Wisconsin Constitution to limit the annual percentage increase in Wisconsin property tax assessments and to require voter approval to increase property tax rates. Before this amendment could become effective it must be adopted by two successive legislatures and ratified by the voters.

If the proposed constitutional amendment does become effective, it would provide that, as of the January 1 after ratification, the maximum annual percentage increase in the property tax assessment on a parcel of real property for any year, excluding special assessments, may not exceed the lesser of 3%, inflation (but not less than 0%) or the percentage which, when added to 100% and their sum is multiplied by the amount of the parcel's assessment, the product equals the fair market value of the parcel, but not less than 0%. (Whew!)

In addition, the proposed amendment would also allow the legislature to provide exceptions to the above limit when property is conveyed or improved, exempt property becomes taxable, a new governmental unit is created or there is an annexation or a consolidation of governmental unit boundaries or there are changes to previous assessments to correct errors.

We will keep you up to date on the progress of this legislation.

**North Carolina** – Effective August 14, 2003, every North Carolina County may create an economic development and training district and may levy additional North Carolina property taxes in order to finance, provide, or maintain a skills training center for the district. Property subject to taxation in

a newly established district or in an area annexed to an existing district is subject to taxation by the county as of the preceding January 1. The additional property taxes may not exceed 8 cents on each \$100 of value of property subject to taxation.

In addition, the North Carolina General Assembly has proposed an amendment to the state constitution that would allow the General Assembly to enact laws authorizing any county, city or town to define territorial areas within its boundaries and to set aside certain amounts of North Carolina property taxes levied within the territorial areas to secure bonds issued to finance public improvements associated with private development projects within the territorial areas. (Editors note: North Carolina is one of three states that does not presently have some sort of TIF or tax increment financing program set up. See our article, this issue, explaining TIFs)

The legislature also passed conforming amendments and additions to North Carolina statutes that would implement the proposed amendments to the state constitution.

*(Our thanks to Commerce Clearing House for the particulars on these legislative changes.)*

## Making Things Better with “TIF”

Forty-seven states presently have some sort of Tax Increment Financing programs in place yet misconceptions about how they work abound. Many people believe that TIF is a tax exemption; others contend that only blighted areas can become a TIF district and that they then divert much needed money from local schools. None of these statements are true.

TIF districts give local governments a means to help them bring back run-down areas or jumpstart economically sluggish parts of town. The tax increment is the difference between the amount of property tax revenue generated before TIF district designation and the amount of property tax revenue generated after TIF designation. This money allows local governments to make needed improvements like new sewers and roads, and provide incentives to attract new business without increasing taxes or dipping into general funds. When new businesses come to an area, more jobs are created, which means more customers and, in turn, private investment. This then leads to more money for the entire community.

### Happy Birthday to Prop 13!!

It is probably being lost in the hoopla of the California Recall election antics, but it is the 25<sup>th</sup> anniversary of the amendment to the California constitution that is affectionately known as “Prop 13”. It was in June of 1978, that California taxpayers initiated a tax revolt in an effort to limit property taxes. The amendment states that, except for levies for bonded indebtedness, property tax rates could not exceed 1 percent of the market value of the property, and valuations could not increase more than 2 percent per year, unless the property was sold.

Even after 25 years the benefits of the change are still being debated. However, one thing is certain, Prop 13 has saved California taxpayers billions of property tax dollars. On the other side of the coin, so to speak, there are those that say the cost to the State in terms of lost public services, like funding to police, education and infrastructure maintenance has not been worth it. Attempts to change the fundamental positions of Prop 13 have failed in the past but today, with the state looking at a \$35 billion deficit; it may be inevitable, especially in the commercial property tax assessment arena.

When a TIF is established, it does not reduce the property tax revenue available to the taxing bodies. Property taxes collected on properties located in the TIF district at the time of its designation continue to be distributed to the taxing bodies as if the TIF did not exist. Only property taxes generated by the increase in value of these properties after TIF designation are available for TIF use.

Various short and long term benefits are created by TIFs. These include: No tax increases, new jobs and job retention, increased property values and a stronger local economy. There are stringent requirements that must be met before an area can be designated a TIF district. These include identification, presenting a redevelopment plan, public hearings and final approval. Perhaps the most important, however, is the so-called “but for” test. The answer to the question, “Would the same kind of private investment occur here BUT FOR the incentive provided by the Tax Increment Financing”, must be NO before the process can even be started.

This is a very brief overview of what TIF districts are and how they benefit a community. For more information, please contact our office.

