Real estate tax draws fire from agents, local lawmakers

BY TIM RICHARD
STAFF WRITER

A 4 percent real estate sales tax may be the first casualty of Gov. John Engler's proposed school finance reform plan.

Suburban lawmakers don't like it, and real estate agents are strongly opposed.

"It's inequitable. It would be a burden on a small percentage of residents," said Owen Broock, president of the Michigan Association of Realtors.

"We would support a reasonable increase in the income tax, a reasonable increase in the sales tax, or a combination of them," said the president of Max Broock Realty in Bloomfield Hills. "This (transfer tax) focuses on a segment of the public. We support a broad-based tax."

"I was on a radio talk show last week — you'd be surprised how many people listen at midnight," said Sen. David Honigman, R-West Bloomfield — "and most callers complained about the real estate transfer tax."

"Philosophically, I don't like it," said Rep. Deborah Whyman, R-Canton. "But he (Broock) hurt their cause by saying they'd accept an income tax increase."

Broock was leadoff witness Wednesday as the House Taxation Committee in the morning and Senate Finance Committee in the afternoon started hearings a day after receiving the bills that would implement the governor's plan to replace a net $6.3 billion local school property tax cut with $6 billion in state taxes.

'Volatile, regressive'

Of all the tax hikes Engler proposed Oct. 5 — sales tax, small single business tax, 16 mill business property tax, 16 mill tax on second homes, and 50-cents-a-pack on cigarettes — the real estate transfer tax so far has drawn the most fire. Broock gave the real estate industry's reasons:

- "It's volatile. Home sales are cyclical. You (state government) risk a serious revenue shortfall," he said, noting that house sales dropped 50 percent in 1981-82, the bottom of the last recession. Treasury officials, he noted, already are modifying downward the proposal's revenue estimates from $700 million to less than $400,000.
- "It reduces the seller's equity for reinvestment." Example: The owner of a $100,000 house may have only $20,000 equity and an $80,000 mortgage. A 4 percent tax would take $4,000 of his price, reducing his equity to $16,000. "That's a 20 percent hit," he said.
- "It's regressive. It would weigh more on the lower and middle classes. Some people are forced to move through economic necessity — a job transfer, death of a spouse or divorce."

In the House committee, Rep. Michael Bennane, D-Detroit, asked if real estate agents won't reap a "windfall" through inflated real estate values with the elimination of the property tax.

"The 'windfall' goes to the homeowner, not the real estate industry," Broock replied.

In the House chamber afterwards, Rep. Justine Barns, D-Westland, said a real estate transfer tax would be almost as burdensome as the school property tax it would replace.

Take the same $100,000 house, assessed for $50,000, in a district with an average school tax rate of 35 mills. Its school property tax is $1,750. The real estate transfer tax would be $4,000 — the equivalent of nearly 2¼ years of school property taxes.

In a separate interview with managers of this newspaper, Thomas B. Ricketts, CEO of Standard Federal Bank, the region's biggest mortgage lender, opposed the real estate transfer tax for similar reasons.

Some like it

Nevertheless, two lawmakers from the west side of the state defended Engler's proposal.

"Mayor (Richard) Daley of Chicago and the Wrigley family get a big break on their Michigan homes — on the backs of the income taxpayers of Michigan," said Rep. Dale Shugars, R-Portage.

"Where you don't have a lot of resort property, you have a lot of support for the income tax," said Sen. Harry Gast, R-St. Joseph, who does have a lot of resort property in his Lake Michigan shoreline district. "Some 73 percent of Saugatuck is owned by out-of-state money.