

PROPERTY TAXES AND CREDITS FOR RESTORED BARNs

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This document outlines certain tax advantages for restoring older barns under the Michigan property tax system and the federal internal revenue code.

Michigan property taxes are very kind to renovated barns located on farms. In fact, the renovation of an older barn for agricultural use has the least tax cost of any comparable construction project.

All owners of farms and single family dwellings are enjoying the benefits of Proposal A, which was adopted by Michigan voters in 1994. By eliminating local school operating millages, property taxes on homes and farms (including barns) were cut by about 50%. Equally beneficial is the provision in Proposal A which prevents property tax increases in excess of the yearly cost of living change (or 5%, whichever is less). In 2013, the increase in taxable value is limited to 2.4% for land and existing buildings which did not change ownership.

Many Michigan farm owners are enrolled in the Farmland Preservation Program (formerly Public Act 116 of 1974). This program refunds all property taxes in excess of

3½% of household income. If a farm owner is receiving a credit under this program, any property tax increases are effectively paid by the State in the form of a refund to the taxpayer. Barns located on farms in the program are protected by this property tax benefit. Farmers who leave the program after the expiration of their contracts must repay the final seven years of tax benefits received. However, contracts can be renewed continuously so that the seven year payback can be delayed for decades. For example, a farm which is in the program for 50 years would only pay back 7 years of tax benefits and keep the other 43 years of benefits without any payback or penalty.

In 2006, an additional beneficial statute was passed (Public Act 260) which allows a farm to be sold or transferred without the taxes being uncapped. This means that taxes on the land and existing structures could not be increased beyond the limits of Proposal A (5% or the cost of living increase, whichever is less). In order to qualify, the farm must be in agricultural use and the new owner must consent by affidavit to keep the farm in agricultural use. If land is changed to a non-agricultural use, the tax benefits received during the final 7 years would have to be repaid.

In addition to the general property tax reduction programs described above, older barns are uniquely under-taxed in Michigan. Older barns are given a highly depreciated value rather than the current square footage construction cost value used for new structures. A township assessor often places a nominal value on an older barn.

As an example, the 54' x 96' barn pictured on the front page (constructed in 1878) has a 2013 assessed value of \$4,018. Based on the taxable value, the 2013 tax bill for the barn will be about \$92. Valuations and taxes in this range are common for older barns throughout the State of Michigan. By comparison, a new pole barn with a similar ground floor usable area constructed in 2011 on the same farm and first taxed on the 2012 tax roll has a taxable value of \$22,588 and a 2013 tax bill of about \$535. Thus, a new barn of comparable size is taxed at almost 6 times the amount of the restored older building. Over a period of 10 years, the new building would cost over \$4,000 extra in property taxes.

As you can see from the above example, construction of a new farm building results in an assessment at current value and thus a substantial tax increase. However, an equivalent restoration of an older barn does not generally result in a tax increase. This is due to several factors. First, a restoration simply extends the life of an existing building rather than adding a new building. Second, restorations are typically either not noticed or ignored by tax assessors. This is due partly to the fact that building permits are not required for agricultural structures. Tax assessors often take assessment data from building permits. Third, there are no assessment increases for maintenance work. Only new value--such as an addition to an existing building or construction of a new building--is added to the taxable value.

A common misconception is that a barn will be taxed at a higher value if it is well maintained (painting, roofing, etc.). This has not been the actual practice in Michigan. A review of the assessment cards in rural townships across the State shows that barns

of comparable size and condition are assessed similarly regardless of their cosmetic maintenance status. This is again largely due to the fact that assessments on older barns are set at a highly depreciated rate due to their year of construction. Also, remember that Proposal A limits any tax increases on existing buildings. The 2013 2.4% increase in taxable value on the barn pictured above amounts to only \$2.20.

The combination of all the above factors results in a very low tax for most renovated barns used for agricultural purposes in Michigan. As the years go by and the Proposal A assessment cap continues to limit taxes, and the costs of construction escalate, the use of older barns becomes ever more financially advantageous for farm owners.

The federal internal revenue code (Section 46) also contains a substantial tax advantage for restoring older barns (those constructed before 1936). This tax credit of 10% or 20% is not available for construction of new buildings. If the barn is a certified historic structure, there is a federal income tax credit equal to 20% of the rehabilitation cost. For pre-1936 barns which are not certified historic structures, the credit is 10%. Thus, if a barn rehabilitation costs \$50,000 the owner would receive a tax credit of \$5,000 or \$10,000. A copy of a synopsis of the relevant section of the internal revenue code is attached to this document.

(Gary Howell is a graduate of Michigan State University with a major in government and a minor in agricultural economics. He is also a graduate of the University of Michigan Law School. He is a township attorney and farmer in Lapeer County. He maintained a Level II Tax Assessing Certification through the State of Michigan for 20 years. He currently serves as president of the Lapeer County Intermediate School Board and chairman of the Lapeer County Road Commission. In 1993 the Howell family extensively restored and renovated their large 1878 barn, which continues in use for their farm operations.)