Lt. Gov. Calley

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Personal Property Tax Reform

REINVENTING MICHIGAN

Purpose

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- Significantly improve Michigan's business environment, competitiveness, and conditions for job growth and investment.
- Protect local units that rely on the personal property tax (PPT).

Problems with the PPT

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Problems with the PPT

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- **Punishes companies for making capital investments.**
  - Particularly hard on manufacturers, who rely on expensive tools, equipment, and other personal property (PP) in their operations.

Problems with the PPT

- **Disproportionately impacts highly mobile companies.**
  - Creates a disincentive to invest and create jobs in Michigan.
  - These companies tend to pay high wages and produce substantial spin-off jobs and investment.

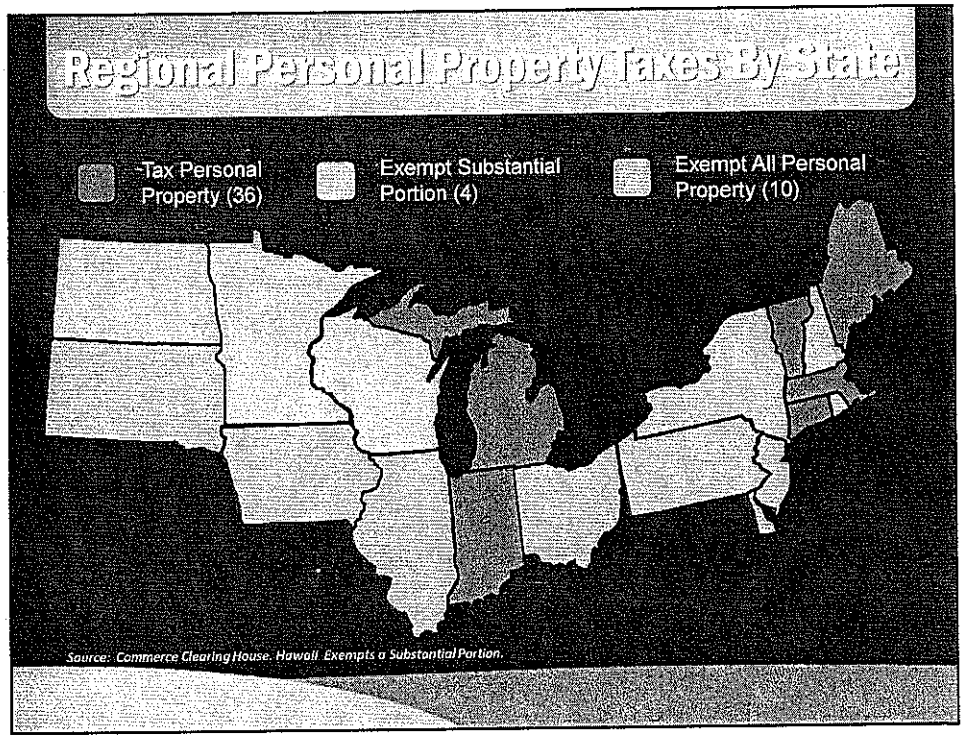
Problems with the BPT

- Imposes high compliance and administrative costs on businesses and local units.

Problems with the BPT

- Makes Michigan an outlier among the states with which it competes.

Regional Personal Property Taxes By State



Source: Commerce Clearing House. Hawaii Exempts a Substantial Portion.

Michigan Tax Rankings

	Before Reforms	After Reforms
CORPORATE TAX	49	7
OVERALL BUSINESS CLIMATE	18	12
PROPERTY TAX	30	--

Source: Robyn, M. (2012, February 10). Michigan Implements Positive Corporate Tax Reform. The Tax Foundation

The Plan

The Plan

- Creates an exemption for small parcels and extends certain abatements/exemptions.
- Establishes 2 new use-based exemptions for new and previously existing "Eligible Manufacturing Personal Property."
- Provides a reimbursement mechanism to protect locals.
- Does not alter the existing classification-based exemptions for industrial and commercial personal property that were created in 2007.

Components

Small Parcel Exemption (SB 1070)

Beginning in 2013, exempts all of a taxpayer's industrial and commercial PP within a local tax collecting unit (LTCU), so long as the combined taxable value (TV) of such property within the unit is less than $40K.

Small Parcel Exemption

- Because the exemption is intended to target small parcels, instead of parcels used in a particular activity, it is based on classification rather than use.
- A taxpayer whose property exceeds the $40K limit receives no exemption.

Small Parcel Exemption

This exemption, by itself, will fully exempt the majority of all commercial and industrial parcels.

New Personal Property Exemption (SB 1069)

Exempts all "new" Eligible Manufacturing Personal Property beginning in 2016.

New Personal Property Exemption

- Exemption applies to property that was placed into service on and after 1/1/2012.
- "Eligible Manufacturing Personal Property" (EMPP) is PP that is located on a parcel of real property if that PP is used more than 50% of the time in Industrial Processing (i.e., line manufacturing) or in Direct Integrated Support (i.e., R&D, testing, engineering, warehousing).
- Industrial Processing does not include the generation of electricity for sale.

New Personal Property Exemption

- **"New" means new. The bill does not allow a company to game the system by bringing in old property from out of state after 2011.**
- **If the property had been used or placed into service in another state prior to 2012, or if it was initially purchased from a vendor of new property prior to 2012, it will not be considered "new."**

New Personal Property Exemption

- **This exemption and the exemption for previously existing EMPP are use-based. Compared to a classification-based system, a use-based system will:**
  - Reduce needless litigation.
  - Lessen the incentive to seek reclassification simply to receive a tax exemption.
  - Prevent the mixing of unrelated concepts (classification and tax status are two different things).
  - Allow us to better target the intended recipients of the exemptions.

Previously Existing Personal Property Exemption (SB 1071)

Phases out tax on previously existing EMPP over 7 years, starting in 2016.

Previously Existing Personal Property Exemption

- Previously existing EMPP is EMPP that is at least 10 years old.
- In 2016, the only manufacturing PP that will still be taxable is property purchased in 2006-2011.
- In each of the next 6 years, the oldest taxable manufacturing PP will drop off the roll.

Previously Existing Personal Property Exemption

- When this exemption and the exemption for new manufacturing PP begin in 2016, more than 70% of all industrial PP will immediately become exempt. (Approximately 40% of all commercial PP will also be exempt in 2016.)
- All manufacturing PP will be exempt in 2022.

Existing Abatements/Exemptions (SBs 1065-1068)

Allows EMPP that qualified for an abatement or exemption in 2012 under PA 198, PA 328, the Enterprise Zone Act, or the Technology Park Redevelopment Act to continue to qualify for the abatement or exemption until that property becomes exempt under the General Property Tax Act.

Existing Abatements/Exemptions

Eliminates the need to have this property go back on the general tax roll only to come off again a short time later.

Reimbursement Fund

Reimbursement Fund (SB 1072)

Establishes reimbursement mechanism to protect local units.

Reimbursement Fund

Beginning in the 2016 fiscal year, requires the Department of Treasury to prepare an estimate for each category of political subdivision (e.g., counties, cities, townships, authorities, school districts, etc) of revenue lost in that fiscal year as a result of the proposed exemptions.

Reimbursement Fund

- **The estimate would be calculated by adding the following amounts for each local unit within the subdivision:**
  - 100% of debt mill loss resulting from the exemptions.
  - 100% of TIF capture loss resulting from the exemptions.
  - Any additional loss, to the extent that it exceeds 2% of the local unit's 2012 budget (1% for economically distressed units).

Reimbursement Fund

- **Instructs the legislature to appropriate to the reimbursement fund, <u>at a minimum</u>, the amount of Treasury's estimate for each category and consolidated category of political subdivision, plus any additional revenue the legislature deems appropriate.**
- **The appropriation will be funded by increased revenue from expiring business tax credits.**

Reimbursement Fund

- The locals, themselves, will be responsible for developing distribution formulas for the revenue that is earmarked for each category or consolidated category of political subdivision.
- The creation of these formulas will be subject to certain requirements to ensure that they are fair and dynamic and that debt obligations are covered.

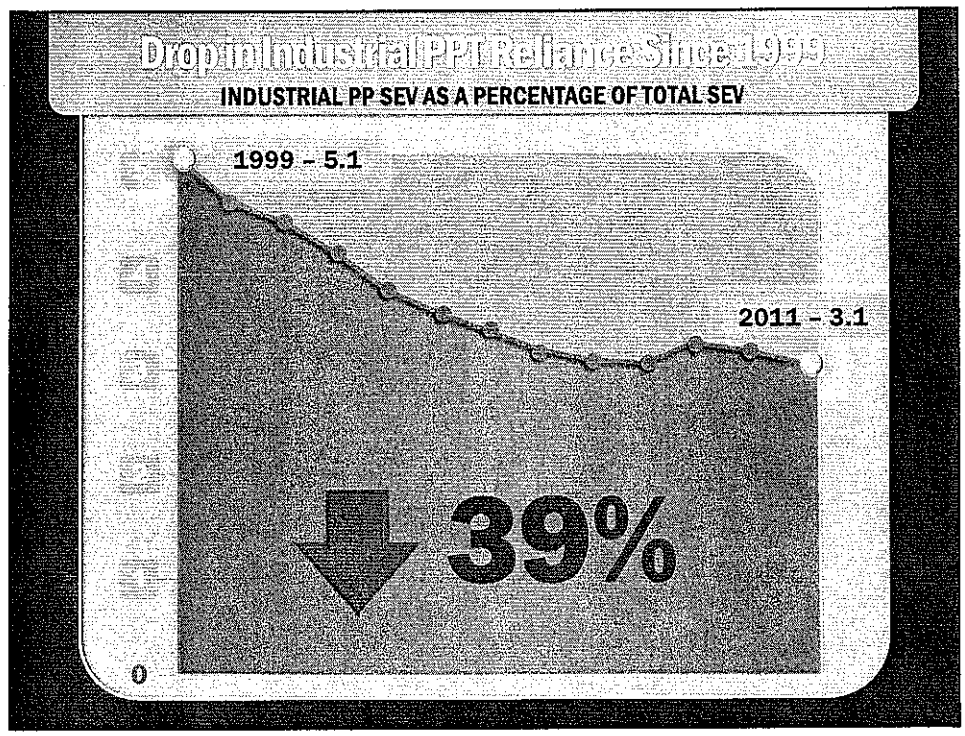
Filing Requirements

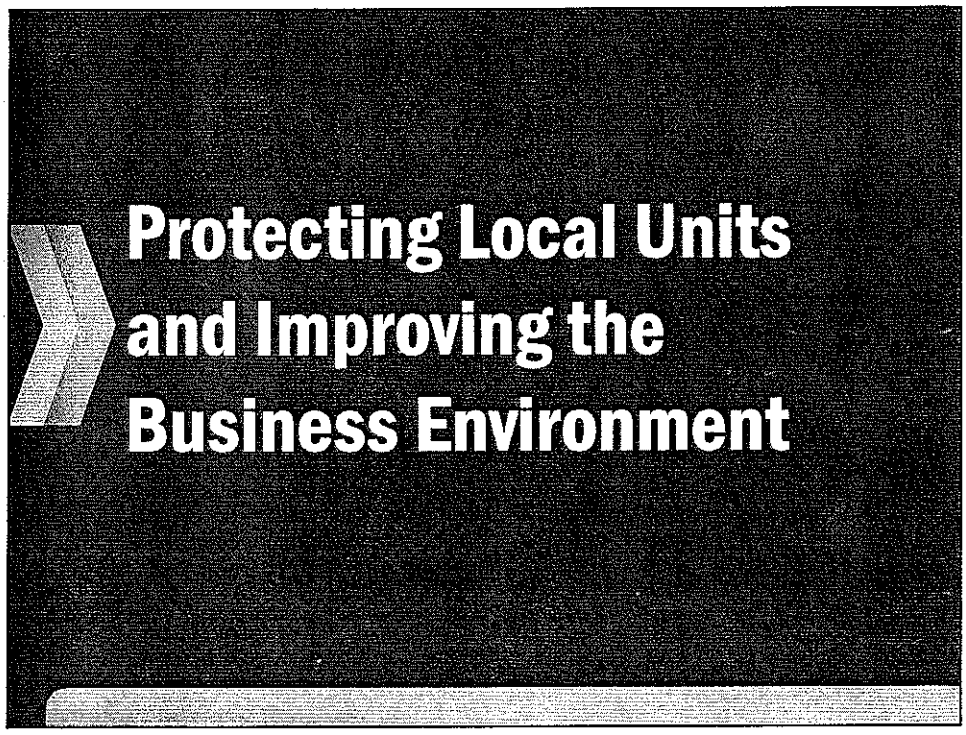
Filing Requirements

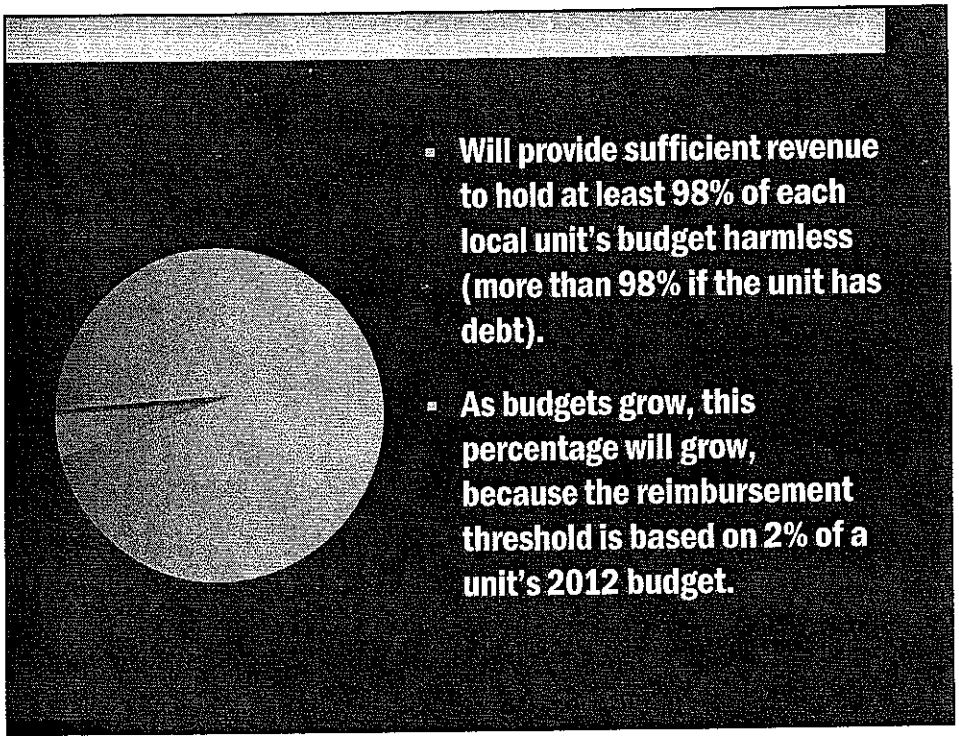
- A taxpayer claiming any of the exemptions does not need to file a PP statement for the exempt property.
- The taxpayer must file an affidavit with the LTCU and Treasury attesting that the taxpayer is eligible for the exemption.
- The affidavit filing requirements differ by exemption type.

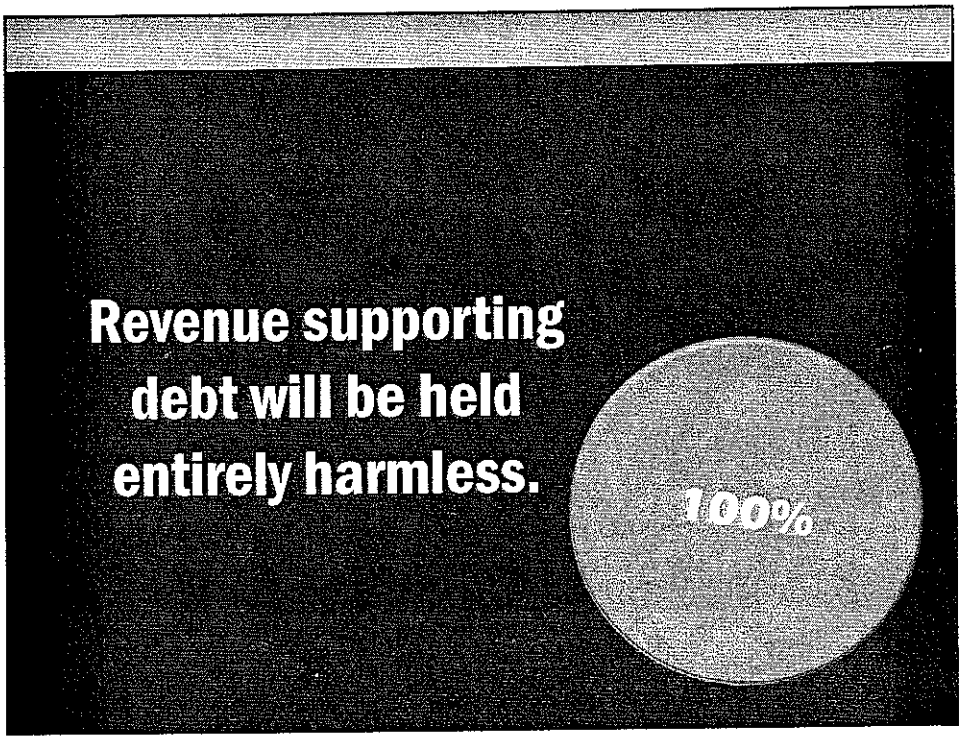
Filing Requirements

ITEM	AFFIDAVIT FILING REQUIREMENT
New Personal Property	Only in 2016.
Previously Existing Personal Property	Only in the first year in which the exemption for that item is claimed.
Small Parcel Exemption	Annually.


Drop in Industrial PPT Reliance Since 1999
INDUSTRIAL PP SEV AS A PERCENTAGE OF TOTAL SEV
1999 – 5.1
2011 – 3.1
39%
0

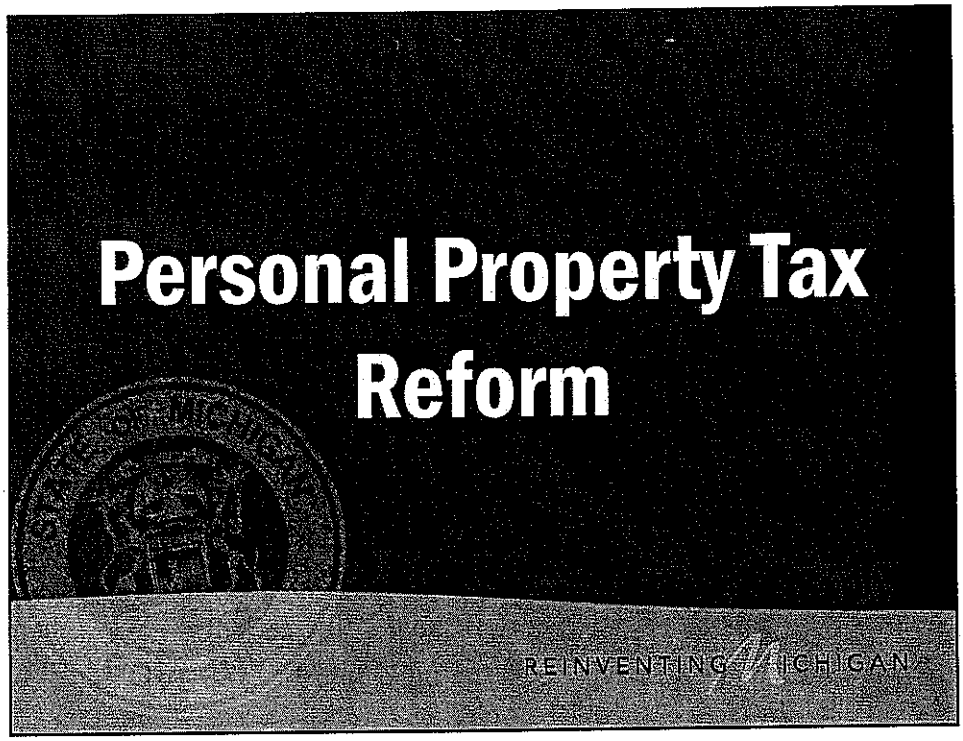

Protecting Local Units and Improving the Business Environment


Will provide sufficient revenue to hold at least 98% of each local unit's budget harmless (more than 98% if the unit has debt).
As budgets grow, this percentage will grow, because the reimbursement threshold is based on 2% of a unit's 2012 budget.


Revenue supporting debt will be held entirely harmless.
100%

Local administrative costs and business compliance costs will be reduced by tens of millions of dollars.

Locals will benefit from a better business environment, leading to increased investment and economic activity, a growing tax base, and more jobs.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