



Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS



Telephone: (517) 373-5383
Fax: (517) 373-1986

Senate Bill 359 (Substitute S-1 as passed by the Senate)
Senate Bill 380 (as passed by the Senate)
Sponsor: Senator Dave Hildenbrand
Committee: Finance

Date Completed: 5-25-17

RATIONALE

Public Acts 107 through 110 of 2016 amended various acts that allow property tax exemptions for eligible manufacturing personal property, and provide for the imposition of an Essential Services Assessment. Public Act 108 of 2016 included amendments to the General Property Tax Act that allowed an owner of qualified new or previously existing personal property who did not file Form 5278 by February 22, 2016, or filed an incomplete form, to file until May 31, 2016. This deadline extension accommodated some businesses that evidently missed the filing deadline because they were unaccustomed to the new personal property tax exemption changes enacted in 2014.

Form 5278 is the form issued by the Michigan Department of Treasury that a taxpayer must complete to claim an exemption under Section 9m or 9n of the General Property Tax Act for qualified new or previously existing personal property (eligible manufacturing personal property). The Department website refers to Form 5278 as, "Affidavit and Statement for Eligible Manufacturing Personal Property and Essential Services Assessment". The 2017 form states, "To claim this exemption, **a fully completed Form 5278** must be received by the Assessor of the local unit of government where the qualified personal property is located **no later than February 20** (February 21, 2017, due to the holiday). **Failure to fully complete the entire Combined Document...on Form 5278 may result in the claim being denied.**" (Emphasis in original.)

Apparently, some businesses failed to submit the document required to claim the exemption by this filing date. It has been suggested that a filing extension, similar to what was included in Public Act 108 of 2016, should be enacted. In addition, it has been suggested that the Local Community Stabilization Authority Act also be amended, as it was by Public Act 123 of 2016. That Act changed several deadlines for tax exemption loss calculations and payments to municipalities, in order to accommodate the filing extension.

CONTENT

Senate Bill 359 (S-1) would amend the General Property Tax Act to allow an owner of qualified new or previously existing personal property who did not file a combined document to claim an exemption by February 21, 2017, to file until May 31, 2017.

Senate Bill 380 would amend the Local Community Stabilization Authority Act to delay several deadlines for the Department of Treasury to calculate or adjust specific tax exemption losses, and for the Local Community Stabilization Authority to make certain payments.

The bills are described in more detail below.

Senate Bill 359 (S-1)

Section 9m of the General Property Tax Act provides for the exemption of qualified new personal property for which an exemption has been properly claimed beginning on December 31, 2015. Section 9n provides for the exemption of qualified previously existing personal property for which an exemption has been properly claimed beginning on December 31, 2015.

The bill states that, for 2017 only, if an owner of qualified new personal property or qualified previously existing personal property had not filed a combined document by February 21, 2017, to claim the exemption under Section 9m or 9n with the assessor of the city or township in which the qualified new personal property or qualified previously existing personal property was located, that owner could file the combined document with the assessor of the city or township no later than May 31, 2017.

If the assessor determined that the property qualified for the exemption, the assessor immediately would have to amend the assessment roll to reflect the exemption. By June 23, 2017, the assessor would have to transmit the combined document, or the information contained in it, under Section 9m or 9n, and other parcel information required by the Department of Treasury, to the Department in the form and manner it prescribed. The owner would still have to meet all deadlines required under the State Essential Services Assessment Act.

If the assessor of the township or city believed that personal property for which a combined document claiming an exemption was filed under this provision by May 31, 2017, was not qualified new personal property or qualified previously existing personal property, the assessor could deny that claim for exemption by giving the person who filed the combined document written notice of the reason for the denial and advising the person that the denial could be appealed to the Michigan Tax Tribunal within 35 days of the date of denial.

("Qualified new personal property" means property that is eligible manufacturing personal property, and is new personal property. "New personal property" means property that was initially placed in service in or outside of Michigan after December 31, 2012, or that was construction in progress on or after December 31, 2012, that had not been placed in service either in or outside of Michigan before 2013. "Qualified previously existing personal property" means personal property that is eligible manufacturing personal property and was first placed in service in or outside of Michigan more than 10 years before the current calendar year.

"Eligible manufacturing personal property" means all personal property located on occupied real property if that personal property is predominately used in industrial processing or direct integrated support. For personal property that is construction in progress and part of a new facility not in operation, "eligible manufacturing personal property" means all personal property that is part of that new facility if that personal property will be predominately used in industrial processing when the facility becomes operational.)

Senate Bill 380

The Local Community Stabilization Authority Act provides for the levy of the local community stabilization share tax and the distribution of that revenue to municipalities (such as counties, cities, villages, townships, authorities, school districts, and community college districts). The local community stabilization share tax is the local share of the total use tax levied under State law. The distributions are based on a number of factors, including the type of municipality, whether it provides essential services, and the amount of revenue lost due to property tax exemptions for industrial and commercial personal property. The Act requires the Department of Treasury to make a number of calculations in order to determine the amount of a municipality's distribution.

For each municipality that is not a local school district, intermediate school district, or tax increment finance authority, the Department, not later than November 7, 2016, and each September 7 thereafter, must do the following:

- a) Calculate the municipality's personal property exemption loss.
- b) Multiply the municipality's personal property exemption loss by the millage rates calculated under the Act.
- c) Adjust the amount calculated under b) by the amount required to reflect the final order of a court or body of competent jurisdiction related to any prior year calculation only for municipalities for which changes in prior year taxable values can be calculated from taxable values reported under the State School Aid Act.
- d) Adjust the amount calculated under b), as adjusted by c), by an amount calculated under the Local Community Stabilization Authority Act for captured taxes levied by the municipality not including taxes attributable to increased captured value.

The bill would change November 7, 2016, to November 7, 2017.

Under the Act, the Department must do all of the following no later than November 7, 2016, and each September 7 thereafter, for each municipality that is a county, township, village, city, or authority that provides essential services:

- a) Add to the amount calculated under a) above any increased value from expired tax exemptions for the current tax year.
- b) Subtract from the amount calculated under a) an amount calculated under the Act for the municipality, not including any amount attributable to increased captured value.
- c) Multiply the result of the calculation in b) by the millage rate calculated under the Act for general operating millage.
- d) Multiply the result of calculation c) by the percentage of the municipality's general operating millage used to fund the cost of essential services in the municipality's fiscal year ending in 2012.
- e) Add to the resulting d) calculation an amount calculated by multiplying the amount calculated under b) by the millage rates calculated under the Act that are dedicated solely for the cost of essential services levied on industrial personal property and commercial personal property.

The bill would change November 7, 2016, to November 7, 2017.

The Act also requires the Department to do all of the following no later than November 7, 2016, and each September 7 thereafter, for each municipality that is not a local school district, intermediate school district, or tax increment finance authority:

- a) Calculate the municipality's 2015 small taxpayer exemption loss.
- b) Multiply the municipality's 2015 small taxpayer exemption loss by millage rates calculated under the Act.
- c) Adjust the amount calculated under b) by the amount required to reflect the final order of a court or body of competent jurisdiction related to any prior year calculation only for municipalities for which changes in prior year taxable values can be calculated from taxable values reported under the State School Aid Act.
- d) Under certain circumstances, adjust the amount calculated under b), as adjusted by c), by the amount calculated under the Local Community Stabilization Authority Act for captured taxes levied by the municipality not including taxes attributable to increased captured value.

The bill would change November 7, 2016, to November 7, 2017.

Under the Act, the Department must do the following no later than August 15, 2016, and each August 15 thereafter, for each municipality that is a local school district:

- a) Calculate the municipality's personal property exemption loss.
- b) Multiply the result of the a) calculation by the sum of the lowest rate of specific individual millages levied under Section 1202 of the Revised School Code (sinking fund millages) and

Section 2 of Public Act 156 of 1917 (which allows school districts to "vote a tax" to fund the operation of public recreation and playground systems).

- c) Adjust the amount of the b) calculation by the amount required to reflect the final order of a court or body of competent jurisdiction related to any prior year calculation.
- d) Subtract from the result of the calculation in b), as adjusted by c), the amount calculated in the Local Community Stabilization Authority Act for captured taxes levied by the municipality under the Revised School Code and Public Act 156 of 1917, not including taxes attributable to increased captured value.

The bill would change August 15, 2016, to November 7, 2017.

In addition, under the Local Community Stabilization Authority Act, the Department must do all of the following no later than August 15, 2016, and each August 15 thereafter, for each municipality that is an intermediate school district:

- a) Calculate the municipality's personal property exemption loss.
- b) Multiply the result of the calculation of a) by millage rates calculated under the Act.
- c) Adjust the amount calculated under b) by the amount required to reflect the final order of a court or body of competent jurisdiction related to any prior year calculation.
- d) Subtract from the result of the b) calculation, as adjusted by c), the amount calculated under the Act for captured taxes levied by that municipality not including taxes attributable to increased captured value.

The bill would change August 15, 2016, to November 7, 2017.

The Act requires the Local Community Stabilization Authority to distribute local community stabilization share revenue according to a formula. The Authority must make the payments required no later than the following dates:

- For county allocated millage, November 20, 2016, and then September 20 of the year the millage is levied.
- For county extra-voted millage, township millage, and other millages levied 100% in December of a year, February 20 of the following year.
- For other millages, November 20, 2016, and then October 20 of the year the millage is levied.

The bill would change November 20, 2016, in both of the provisions above to November 20, 2017.

MCL 211.9m & 211.9n (S.B. 359)
123.1354 et al. (S.B. 380)

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

Business owners should be able to claim the personal property tax exemptions they are entitled to under the law. However, there is limited ability to allow a business to do so if it is late filing for the exemption with a local assessor. Reportedly, in one case, a business sent the required documentation to its local assessor six days before the exemption claim was due, but the documentation arrived late and the business was considered to have missed the filing deadline. A long-term solution may be determined eventually to avoid this type of problem in the future, but until that occurs, the bills would provide the necessary opportunity for businesses that missed the 2017 filing deadline to claim the exemptions they deserve.

Legislative Analyst: Drew Krogulecki

FISCAL IMPACT

Senate Bill 359 (S-1)

The bill would reduce State and local revenue and increase administrative costs for State and local government by an unknown amount. A similar extension enacted by Public Act 108 of 2016 resulted in an estimated 500 additional properties qualifying for personal property tax (PPT) exemptions. The number of properties that would qualify under the proposed extension for 2017 could be larger or smaller than in 2016. The bill would reduce State Education Tax (SET) revenue and local property tax revenue by an amount that would depend on the number and taxable value of the properties that qualified for a PPT exemption due to the extended deadline. Local revenue changes also would depend on local millage rates. The General Fund reimburses the School Aid Fund for reductions in SET revenue and the increased cost of the foundation allowance due to reduced property tax collections. The distribution of personal property tax reimbursement payments from the Local Community Stabilization Authority (LCSA) to eligible local units would change somewhat based on the distribution of exempt property among local units of government. The total amount of LCSA payments, however, would not change as the total of all PPT reform reimbursements each year is set in statute. State revenue from the Essential Services Assessment would increase by an unknown and likely minimal amount. The Department of Treasury and local officials who administer the property tax would have additional administrative costs under the bill, which likely would be absorbed within existing resources.

Senate Bill 380

The bill would have no fiscal impact on State or local government, but would change the timing of the State's distribution to municipalities of certain payments related to personal property tax reform.

Fiscal Analyst: Elizabeth Pratt
David Zin

SASVA1718\sb359p

This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.