



Senate Fiscal Agency  
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BILL ANALYSIS

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Senate Bill 927 (as passed by the Senate)  
Sponsor: Senator Dave Hildenbrand  
Committee: Finance

Date Completed: 10-11-18

### **RATIONALE**

There are many companies that rent heavy equipment, such as construction or industrial equipment, to customers in Michigan. This rental equipment is moved to and from sites to accommodate customers' needs. However, this equipment is subject to property taxes in Michigan under the General Property Tax Act, and is taxed for the entire year based on its location on January 1. Some believe that this tax structure is unfair and burdensome to the heavy equipment rental industry. To address this issue, it has been suggested that Michigan law be amended to exempt qualified heavy equipment property from property taxes.

### **CONTENT**

**The bill would amend the General Property Tax Act to exempt qualified heavy equipment property from the property tax for taxes levied after December 31, 2017.**

"Qualified heavy equipment property" would mean any construction, earthmoving, or industrial equipment that is mobile and rented by a qualified renter, including attachments for the equipment or other ancillary equipment or tools. For purposes of the definition, equipment would be mobile if it were not permanently affixed to real property and could be moved among worksites.

"Qualified renter" would mean a person that meets both of the following:

- Operates a business that generates over 51% of its annual revenue by renting out qualified heavy equipment property.
- Is engaged in a line of business described in Code 532412 or 532310 of the North American Industry Classification System published by the United States Census Bureau, 2012 Edition.

(Code 532412 (Construction, Mining, and Forestry Machinery and Equipment Rental and Leasing) refers to an industry that "comprises establishments primarily engaged in renting or leasing heavy equipment without operators that may be used for construction, mining, or forestry, such as bulldozers, earthmoving equipment, well drilling machinery and equipment, or cranes". Code 532310 (General Rental Centers) refers to an industry that "comprises establishments primarily engaged in renting a range of consumer, commercial, and industrial equipment".)

Proposed MCL 211.9p

### **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**

The "shared economy", or the idea of businesses sharing access to goods and services with consumers, usually through community-based online platforms, is growing throughout the United States. Companies like Bird, Lyft, and Uber provide ride-sharing platforms that are accessible in many areas. Heavy equipment also is becoming a larger part of the shared economy, with companies providing consumers the ability to rent heavy equipment. However, rented heavy equipment travels between jobsites and could be located in any of a number of places on January 1, which is when the State determines the taxes due for that property, based on its location on that date. This is burdensome for the entity that owns that equipment, as it must file personal property tax forms in each location in which it has equipment on that date. Moreover, because equipment is moved regularly, the owner may have to pay taxes in other states on the same equipment for the same year. This policy is unfair, particularly when other states, like Indiana and Ohio, have exemptions for such equipment. This puts Michigan heavy equipment rental companies at a competitive disadvantage.

The American Legislative Exchange Council and the National Conference of State Legislatures both recommend that states "consider administrative accommodations or substitute taxes for taxpayers with highly mobile property that will be used in multiple locations (within the state or multiple states) throughout the tax year (e.g. heavy equipment rentals)".<sup>1</sup> Michigan's current tax structure, as applied to the heavy equipment rental industry, creates significant administrative costs to local assessors, taxing jurisdictions, and taxpayers, and may outweigh the revenue generated. The bill would address all of these concerns by creating an exemption for heavy equipment rentals.

### **Opposing Argument**

The Michigan Legislature eliminated and reformed personal property tax for industrial equipment in 2012. Those reforms included an exemption for personal property valued at less than \$80,000. However, commercial personal property was not addressed. By exempting a narrow segment of commercial property from taxation, the bill would create an inconsistent policy that taxes separate categories of commercial personal property differently.

### **Opposing Argument**

The bill would not be fair for companies that own and operate their own heavy equipment, as they would not receive the exemption because they do not rent the equipment to other consumers.

Legislative Analyst: Drew Krogulecki

### **FISCAL IMPACT**

The bill would have a negative fiscal impact on the State and local governments. An additional exemption from personal property taxation would reduce local property tax revenue and State School Aid Fund (SAF) revenue from the State Education Tax (SET), and increase the State cost of the foundation allowance. The General Fund is required to reimburse the SAF for lost revenue and additional costs of the personal property tax exemptions. The Department of Treasury estimates the bill would reduce property tax revenue by \$11.8 million to \$13.0 million per year. Of that amount, between \$3.4 million and \$3.7 million would be a cost to the State through reduced SET revenue and increased SAF expenditures. The remaining \$8.1 million to \$9.6 million would be a reduction in revenue to local governments.

Fiscal Analyst: Ryan Bergan

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<sup>1</sup> American Legislative Exchange Council, *Resolution In Favor Of Tangible Personal Property Tax Repeal*, September 12, 2016; National Conference of State Legislatures, *Principles for the Taxation of Business Personal Property*, January 9, 2016.

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