

## MODIFY INDUSTRIAL FACILITIES EXEMPTION PROGRAM FOR CERTAIN WAREHOUSE OR DISTRIBUTION FACILITIES

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**Senate Bills 536 and 537 as passed by the Senate**

**Sponsor: Sen. Paul Wojno**

**House Committee: Economic Development and Small Business**

**Senate Committee: Economic and Community Development**

**Complete to 11-11-24**

Analysis available at  
<http://www.legislature.mi.gov>

### SUMMARY:

Senate Bills 536 and 537 would amend the Plant Rehabilitation and Industrial Development Act to allow more buildings to qualify for a tax abatement for industrial property under the act.

The Plant Rehabilitation and Industrial Development Act allows local units of government to grant industrial facility exemption certificates<sup>1</sup> to new and speculative buildings and to replacement facilities that meet certain criteria. The certificate, generally speaking, grants a property tax abatement on a facility (but not the land) for up to 12 years, by allowing a firm to pay a lower specific tax instead of regular ad valorem property taxes. For a new facility, the specific tax is roughly one-half of the standard property tax. The tax for a rehabilitated facility is based on the value of the property prior to renovation. Approval is first required by a local unit of government and subsequently by the State Tax Commission, which checks to see if the law has been properly followed. The state treasurer can also allow the abatement of the state education tax.

Local units cannot approve, and the State Tax Commission cannot grant, an industrial facilities exemption certificate for a speculative building unless it is or will be located in a duly established plant rehabilitation district or industrial development district, was constructed within nine years before the application for the certificate was filed and has not been occupied since construction was completed, and otherwise qualifies for the certificate.

**Senate Bill 537** would newly allow commercial property that is located in a county not adjacent to another state or Canada to qualify as *industrial property* eligible for an industrial facility exemption certificate under certain circumstances.

The act defines *industrial property* as land improvements, buildings, structures, other real property, machinery, equipment, furniture, or fixtures, or any part or accessory, that have the primary purpose of and are used for one of several allowable activities, including *qualified commercial activity*.

Currently, *qualified commercial activity* means commercial property<sup>2</sup> that occupies a building or structure that is over 100,000 square feet in size and of which at least 90%

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<sup>1</sup> For more information on the exemption, see: <https://www.michigan.gov/taxes/property/exemptions/industrial-facilities/industrial-facilities-exemption>.

<sup>2</sup> *Commercial property* means that term as defined in section 2 of the Obsolete Property Rehabilitation Act (<https://www.legislature.mi.gov/Laws/MCL?objectName=mcl-125-2782>). Generally, it means land improvements and buildings that are classified as real property and are for the operation of a commercial business enterprise. It

is used for warehousing, distribution, or logistical purposes and is located in a county that borders another state or Canada, or of which at least 90% is used for a communications center.

The bill would remove the requirement that a property used for warehousing, distribution, or logistical purposes must be in a county bordering another state or Canada to qualify as *qualified commercial activity* and thus be considered *industrial property* eligible (if other applicable conditions are met) for an industrial facility exemption certificate.

MCL 207.552

**Senate Bill 536** would expand the definition of a *speculative building* to include certain buildings to be constructed for warehousing or distribution facilities.

Currently, a new building (including any machinery or fixtures inside of it) must generally meet the following criteria to qualify under the act as a *speculative building*:

- The building is owned by a local governmental unit in which the building is located, approved as a speculative building by a governmental unit in which the building is located, or owned by a development organization<sup>3</sup> and located in the district of the development organization.
- The building is constructed for the purpose of providing a manufacturing facility before a specific user for the building is identified.
- The building does not qualify as a replacement facility.

The bill would provide that a building constructed for a *warehousing or distribution facility* before a specific user is identified also qualifies as a speculative building if it otherwise meets the requirements listed above.

MCL 207.553

## **FISCAL IMPACT:**

The bills would reduce state and local property tax revenue by an unknown amount, subject to certain assumptions explained below. The overall revenue impact would depend on the number, location, value, and millage rates of newly eligible property under the bills. The revenue loss would be mitigated to the extent that the activity would not have occurred but for the changes prescribed in the bills. However, this cannot be determined with any certainty.

As noted above, the tax exemption/abatement provided under the act depends on the characteristics of the property, mainly whether the facility is new or rehabilitated. If the property is rehabilitated, the industrial facilities tax (IFT) is levied at the same rate as the local

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includes facilities relating to a commercial business enterprise under the same ownership at that location (including office, research, and warehousing activities) and a building or group of contiguous buildings that were previously used for industrial purposes and will be converted to use for the operation of a commercial business enterprise, multiple-unit dwelling, or mixed-use structure.

<sup>3</sup> The act defines *development organization* as any economic development corporation, downtown development authority, or tax increment financing authority, or an organization created by and under the supervision of a local governmental unit for economic development purposes.

property tax, but the taxable value remains the taxable value of the property before the rehabilitation, resulting in a 100% exemption from property taxes on the improvements. For a new facility, the IFT is 50% of the property tax rate applied to the taxable value of the new facility, and the six-mill state education tax (SET) may be reduced by 50% or 100% as provided under statute.

Whatever version of IFT is levied (new or rehabilitated), the distribution of the IFT would be in the same proportion as the property tax collected if the IFT were not in place. However, the portion that would have gone to the intermediate school district (ISD) or school district without an industrial facility exemption certificate is distributed to the School Aid Fund (SAF) under the IFT. Since school operating mills would be redirected to the SAF, costs for the SAF would increase, assuming the foundation allowance was maintained so that the ISD or school district was held harmless. If the SET is reduced or eliminated on the property, the SAF would realize reduced revenues. Local units of government would realize reduced revenues due to the IFT abatement. As noted above, to the extent that the activity would not have occurred but for the bill, the overall fiscal impact would be mitigated, but this cannot be estimated with any certainty.

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations and does not constitute an official statement of legislative intent.