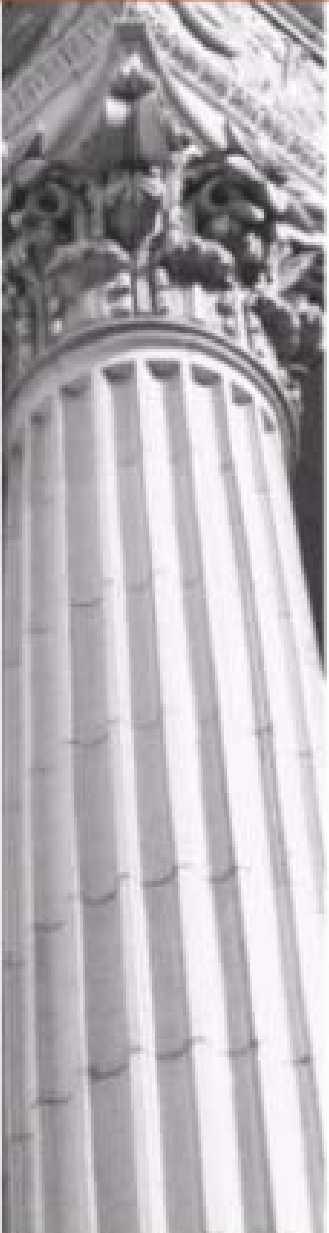




Personal Property Tax Reform

MEDC Regional Meeting
May 24, 2012

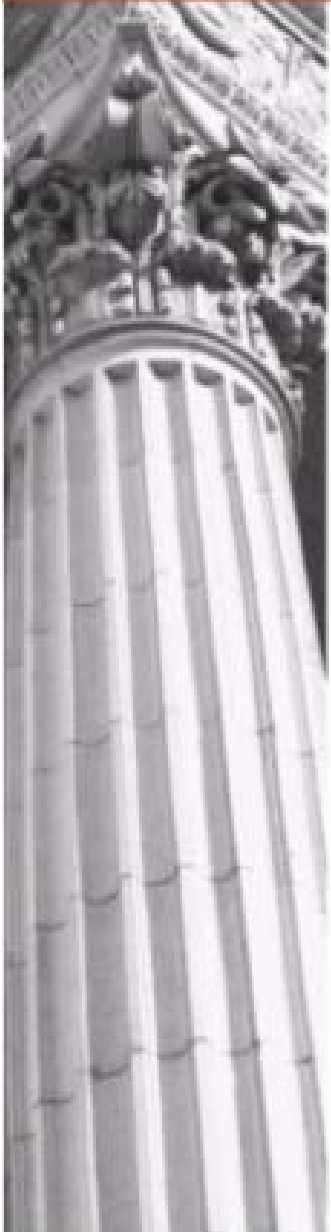
Eric Lupher
Director of Local Affairs
elupher@crcmich.org





Citizens Research Council of Michigan

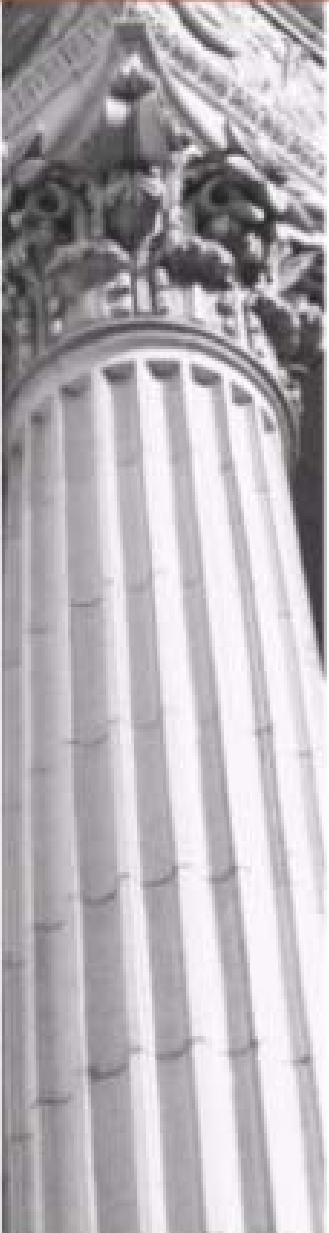
- Founded in 1916
- Statewide
- Nonpartisan
- Private not-for-profit
- Promotes sound policy for state and local governments through factual research
- Relies on charitable contributions from Michigan foundations, businesses, organizations, and individuals





Property Taxation

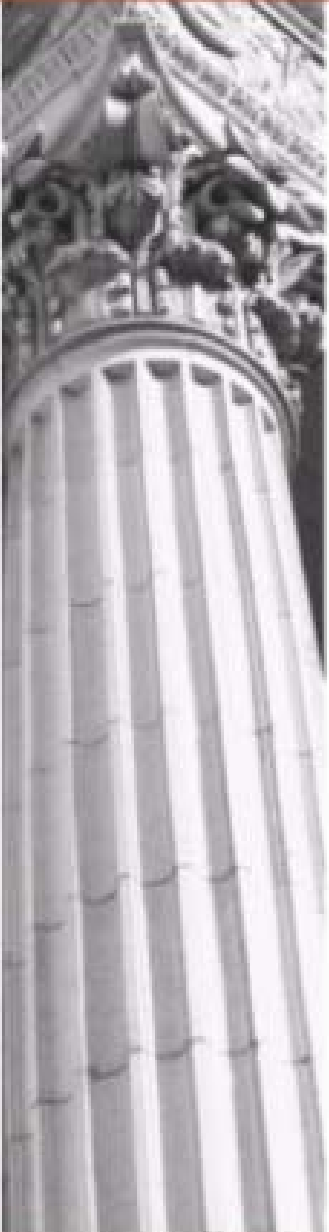
- **Real**
 - Land, buildings and fixtures on the land, and appurtenances to the land
- **Personal**
 - Generally considered things movable, including tangible property, other than real, intangible, and inventory property.
- **Inventory**
 - The stock of goods held for resale in the regular course of trade of a retail or wholesale business.
 - Finished goods, goods in process, and raw materials of a manufacturing business.
 - Materials and supplies, including repair parts and fuel.
- **Intangible**
 - Stocks, bonds, mutual funds, savings, and other non-tangible (income and non-income producing) assets





Property Taxation

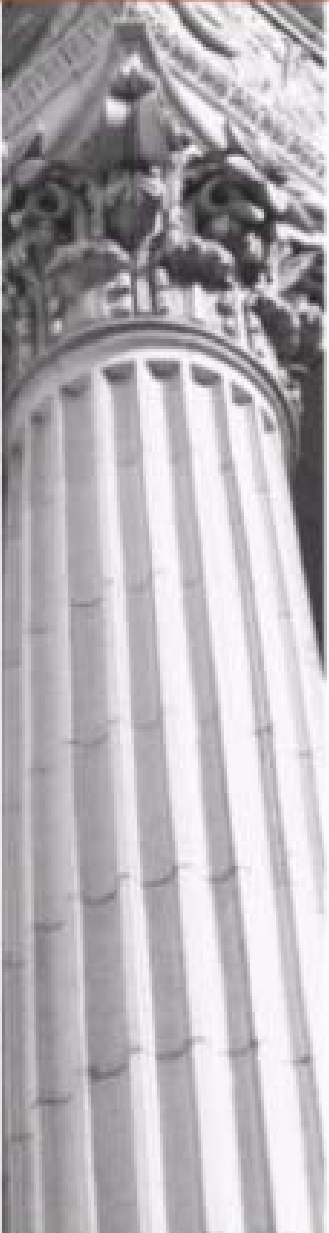
- Real
- Personal
- Inventory
- ~~Intangible~~
 - 1939 – exempted from property tax base, replaced with state tax
 - 1940 – 100% of revenues distributed to local governments on per capita basis
 - Decreasing percentages distributed to local governments (usually flat \$9.5 million)
 - 1998 – all funding funneled through sales tax





Property Taxation

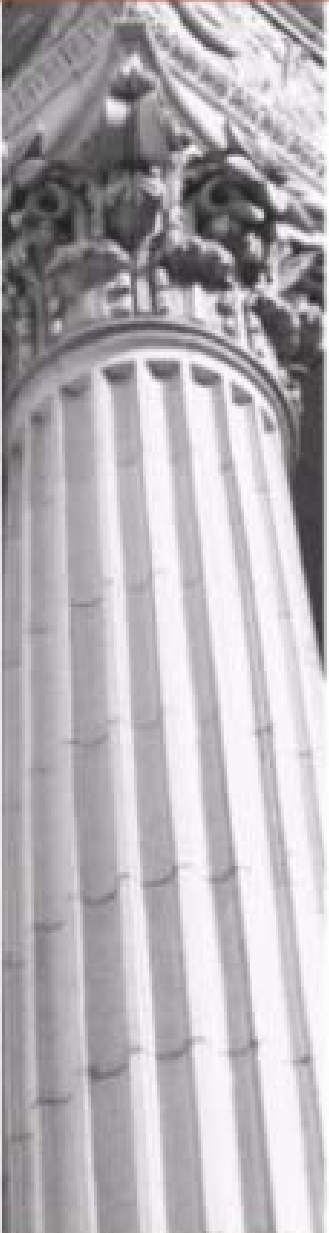
- Real
- Personal
- ~~Inventory~~
 - 1975 – exempted from property tax base as part of Single Business Tax package
 - Local governments reimbursed for their lost revenue based on the tax rate in the prior year times the SEV of inventory property in the CVT in 1975
 - Increasing disconnect between funding structure of CVTs in 1975 and present year structure
 - 1998 – all funding funneled through sales tax
- ~~Intangible~~





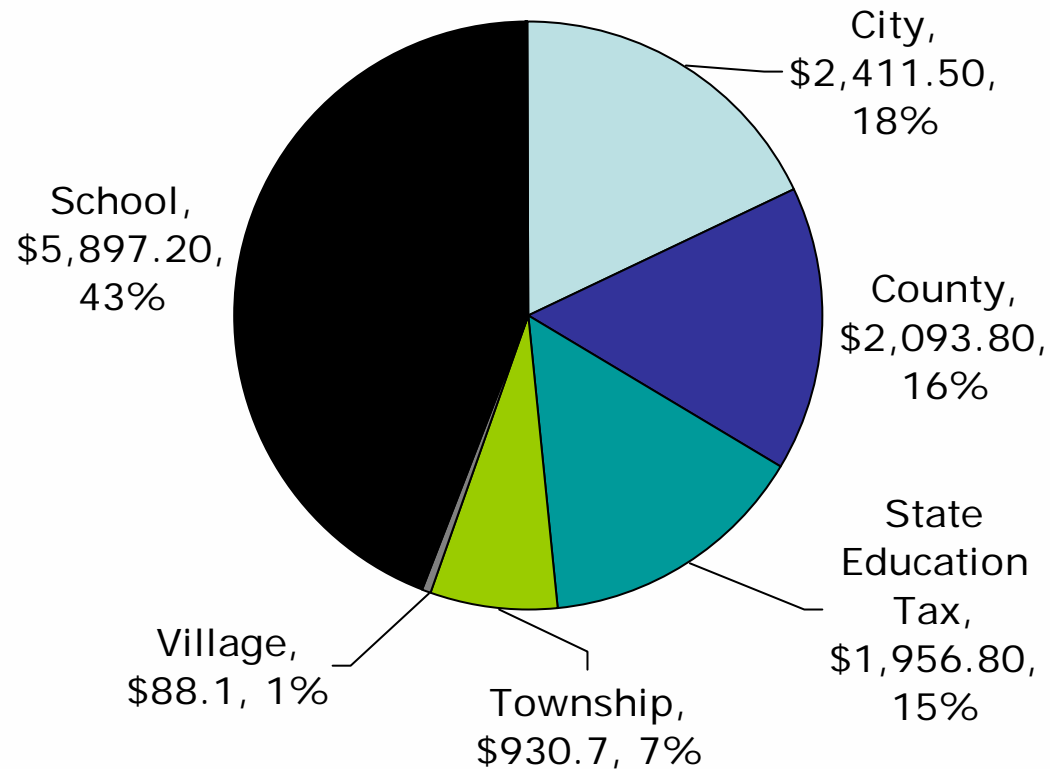
Property Taxation

- Real
- ~~Personal~~
 - 2012 – legislative proposals to exempt certain personal properties from taxation
 - Reimbursement based on existing debt and lost tax capture
 - Reimbursement also for foregone revenues in excess of percentage of revenues
- ~~Inventory~~
- ~~Intangible~~



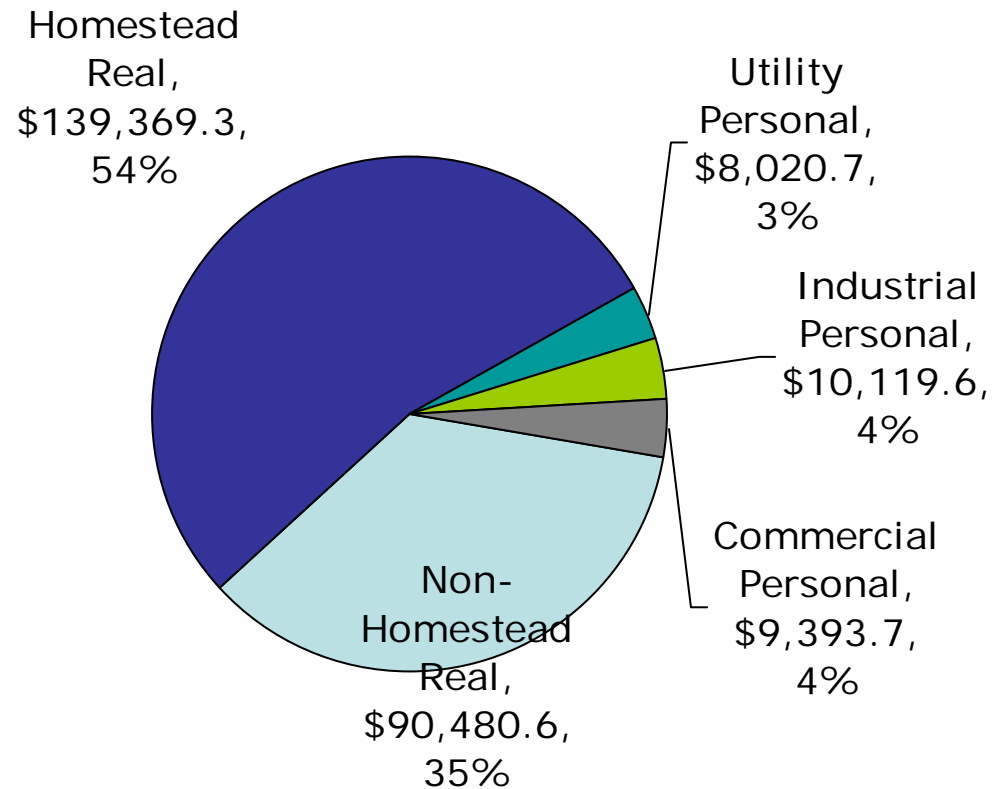


Property Taxes on Real and Personal Property by Type of Government, 2011 (millions of dollars)



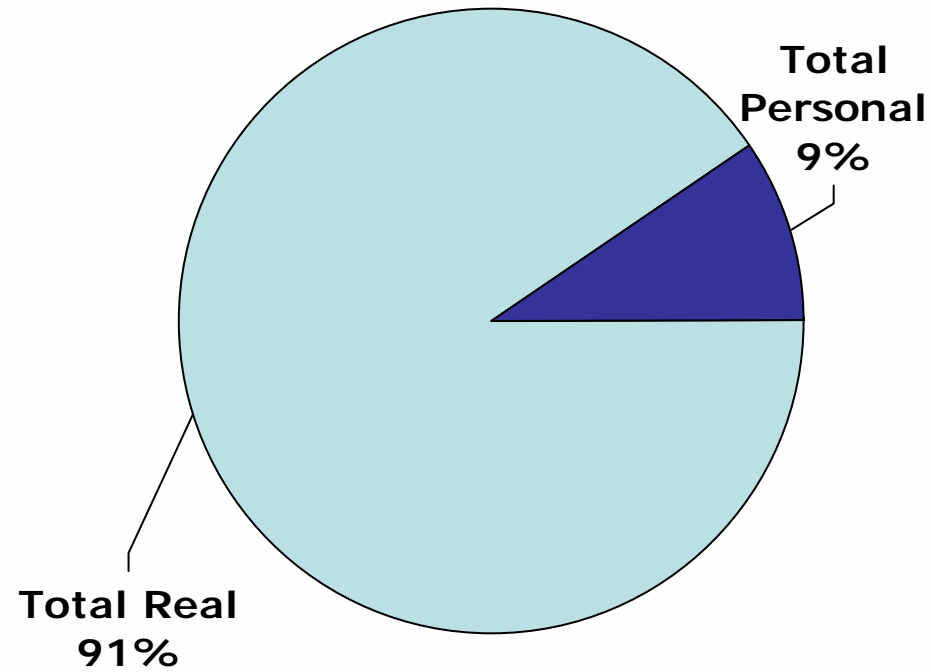


Property Taxes by Type of Property, 2011 (millions of dollars)



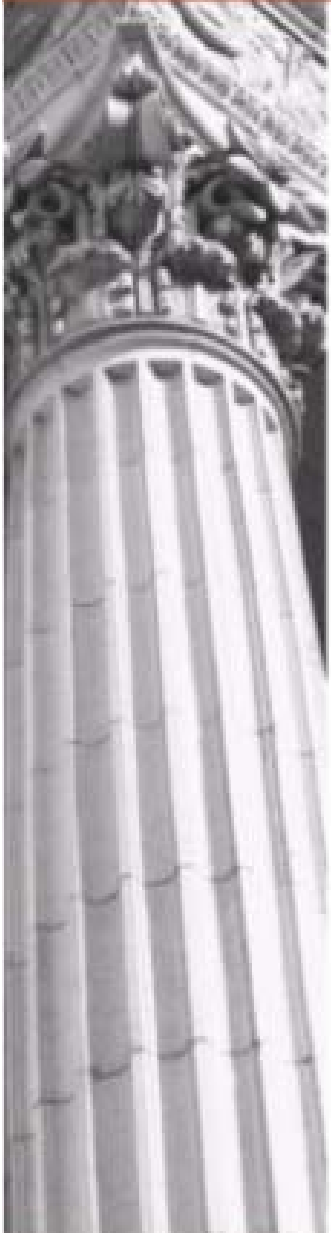
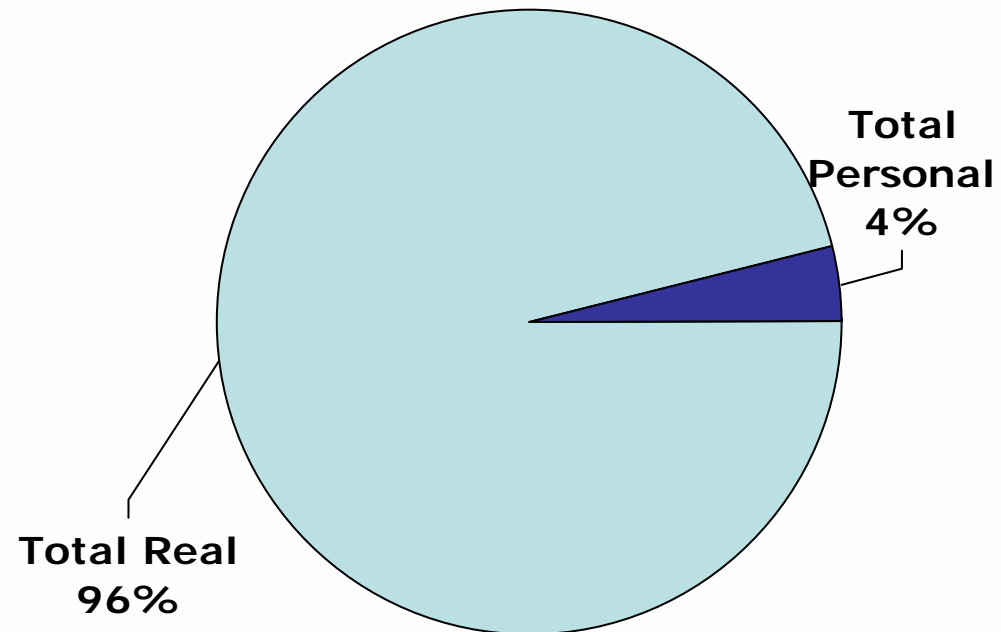


Split of Real and Personal Property for Cities, 2011





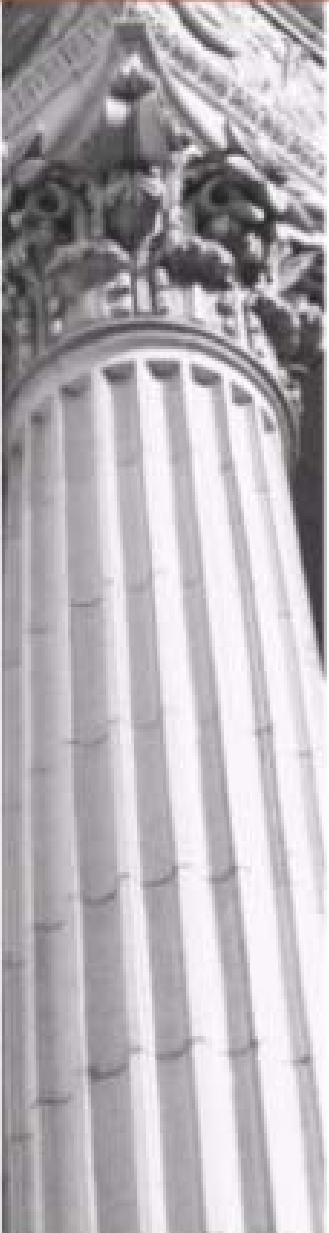
Split of Real and Personal Property for Townships, 2011





Current PPT Provisions

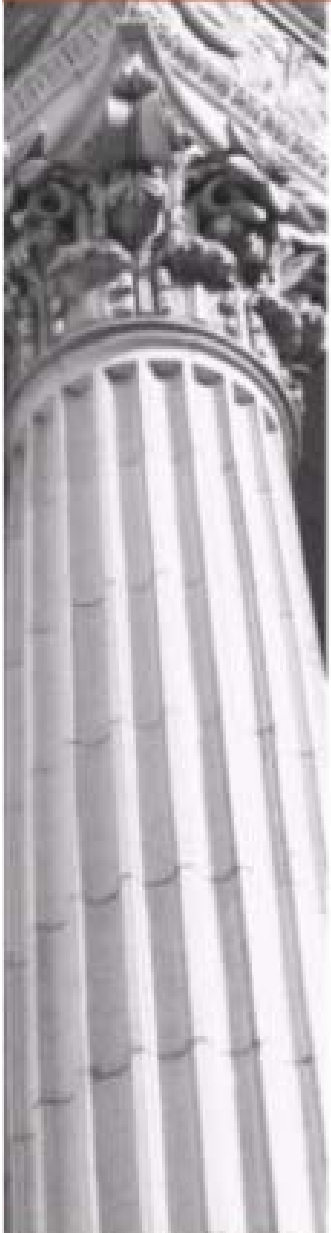
- Certain household property, personal business property and mechanic's tools are exempt
- Personal property used in agricultural operations is exempt
- Industrial personal property is exempt for school operating millages (SET and 18 mill non-homestead taxes)
- Commercial personal property is exempt from 12 of 18 mills (non-homestead) school operating millage
- Credit against MBT for 35% of taxes paid on eligible industrial personal property (ended when CIT replaced MBT)
- Credit against MBT for 13.5% of taxes paid on eligible telephone personal property (ended when CIT replaced MBT)





Big Picture View of Proposed Reforms

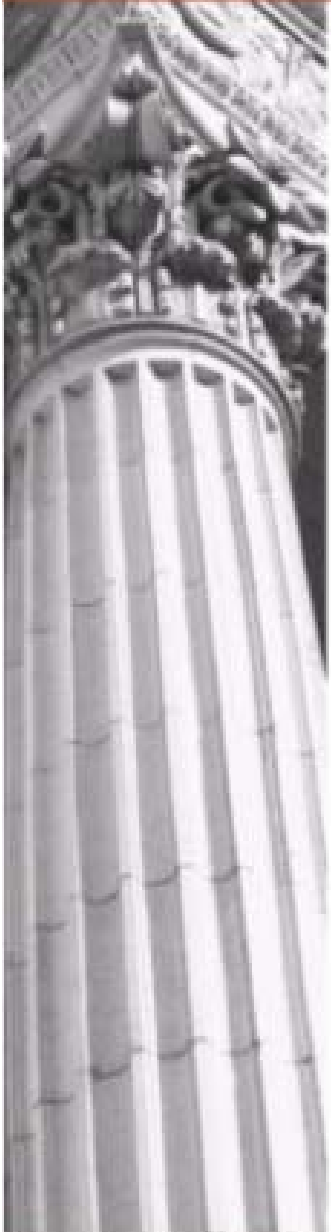
- Businesses with less than \$80,000 (\$40,000 of TV) of personal property will not file forms or pay taxes on that property
- All eligible personal property bought after 12/31/11 will not be taxable after 12/31/15
- Any eligible personal property that is 10 years old as of 12/31/15 will no longer be taxed. Continue each year until all eligible personal property is exempt.
- Attempt to protect local governments from severe revenue losses





Legislative Package

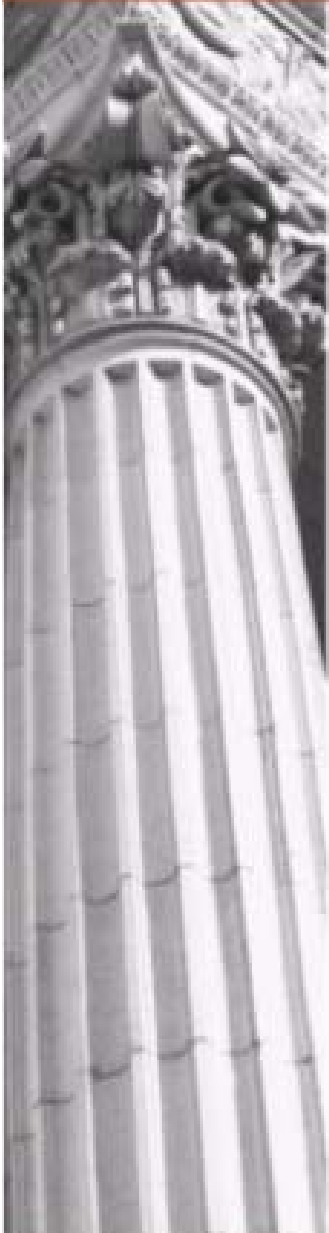
- **SB 1070** – amend General Property Tax (GPT) act
 - Exempts commercial and industrial personal property from taxation if all such property owned by taxpayer is less than \$40,000 in TV (\$80,000 in market or acquisition value)
 - Owner must file affidavit with city or township and MI Department of Treasury by May 1 of each year
 - Effective December 31, 2012





"Eligible manufacturing personal property"

- Defined in SB 1072
- All personal property that is located on a parcel of real property if that personal property is used more than 50% of the time in industrial processing or in direct integrated support. The percentage of use of personal property in industrial processing or in direct integrated support shall be determined in the following manner:
 - i. Multiply the true cash value of each individual item of personal property located on that parcel of real property by its percentage of use in industrial processing or in direct integrated support.
 - ii. Add the result of calculation under subparagraph (i) for all personal property located on that parcel of real property.
 - iii. Divide the result of the calculation under subparagraph (i) by the total true cash value of all personal property located on that parcel of real property.





Legislative Package

- **SB 1069 – amend General Property Tax (GPT) act**
 - **Exempts qualified new personal property from taxation**
 - "Qualified new personal property" is property that:
 - Is eligible manufacturing personal property.
 - Was new personal property after December 31, 2011.
 - **Owner file affidavit with city or township and MI Department of Treasury by May 1 of each year**
 - **Effective December 31, 2015**



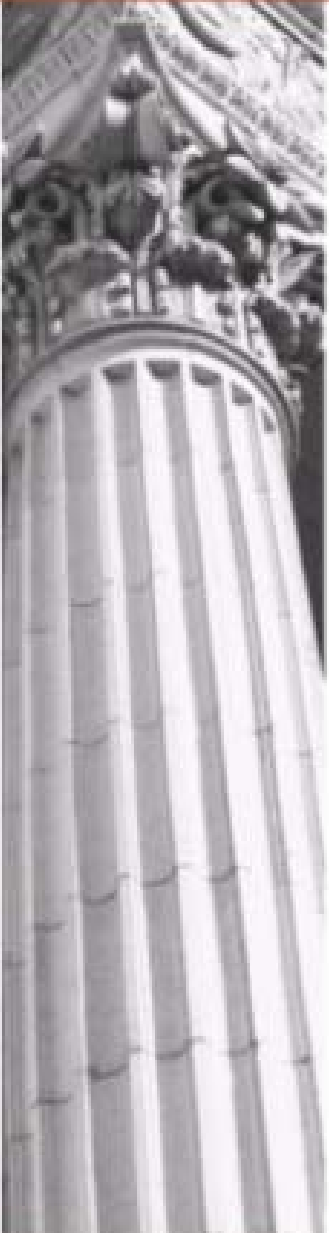


Legislative Package

- **SB 1071 – amend General Property Tax (GPT) act**
 - **Exempts qualified existing personal property from taxation**

"Qualified existing personal property" is property that:

 - Is eligible manufacturing personal property.
 - Has been subject to or exemption from taxation under the GPT for past 10 years.
 - **Owner file affidavit with city or township and MI Department of Treasury by May 1 of each year**
 - **Effective December 31, 2015**





Legislative Package

- **SB 1067** – amend General Property Tax (GPT) act
 - Amends existing language that permits exemption of personal property from taxation so that previously exempted eligible manufacturing personal property remains exempt





Legislative Package

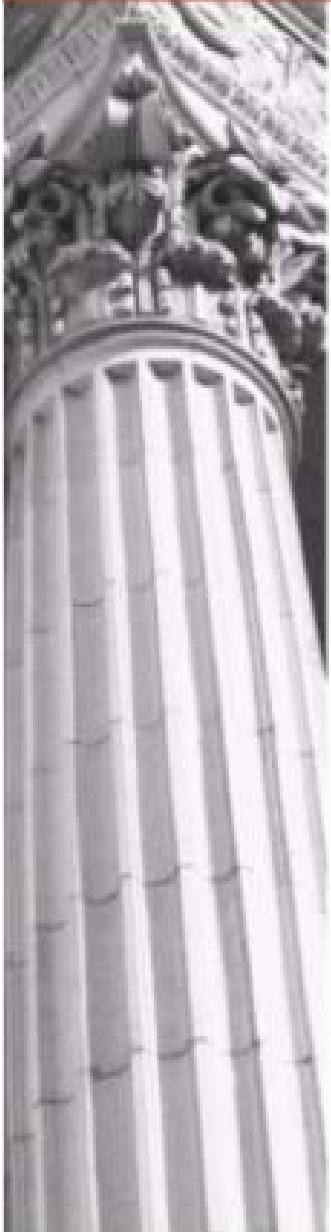
- **SB 1065** – Plant Rehabilitation and Industrial Development Act (PA 198s)
- **SB 1066** – Technology Park Development act
- **SB 1068** – Enterprise Zone Act
- **Eligible manufacturing property will remain to these specific taxes in lieu of property taxation until personal property becomes exempt under this package of bills**





Legislative Package

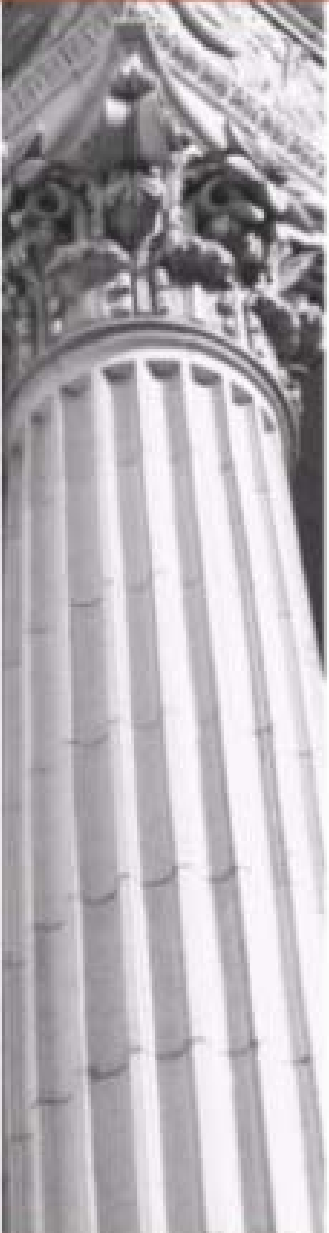
- **SB 1072** – amend General Property Tax (GPT) act
 - **Create the “Personal Property Tax Exemption Reimbursement Act”**
 - Reimburse local taxing units and tax increment financing authorities for revenue lost because of PPT exemptions.
 - Department of Treasury annually calculate whether lost revenue exceeds 2% of general fund of each taxing unit
 - Exceeds 1% for “economically distressed local taxing units”
 - Reimburse debt mill loss and lost tax capture
 - Create “Personal Property Tax Reimbursement Fund”





Local Taxing Unit

- “any political subdivision of this state, including, but not limited to, a county, city, village, township, authority, intergovernmental entity, local school district, intermediate school district, community college district, library, or any other entity that collected ad valorem taxes levied on commercial personal property or industrial personal property before January 1, 2016”





Economically distressed local taxing unit

A local taxing unit that meets 1 or more of the following conditions:

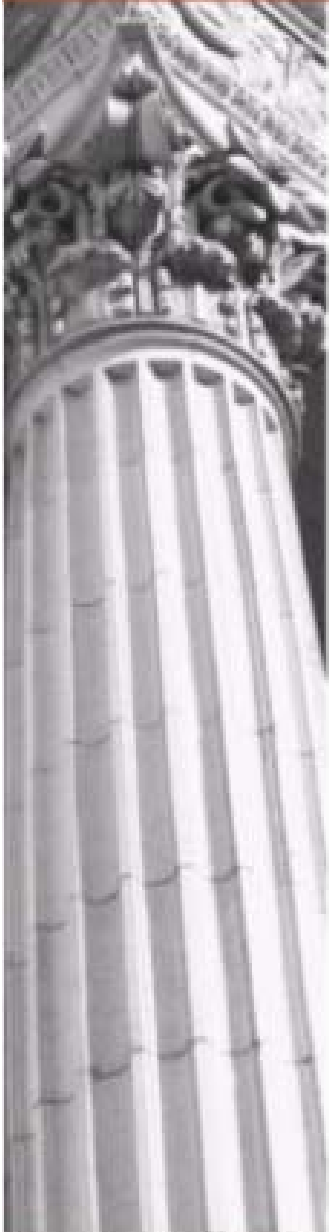
- (i) Has entered into a consent agreement or has an emergency manager appointed under the local government and school district fiscal accountability act, 2011 PA 4, or any successor statute.
- (ii) Has a projected deficit in the general fund for the current fiscal year in excess of 5% of the general fund revenue.
- (iii) Has a bond rating that is less than investment grade according to a recognized bond rating agency.
- (iv) Has had a smaller increase or greater decline in taxable valuation than the statewide change in taxable valuation in 3 of the immediately preceding 5 years.
- (v) Is determined to be economically distressed by the Michigan Department of Treasury.





Subject to Reimbursement

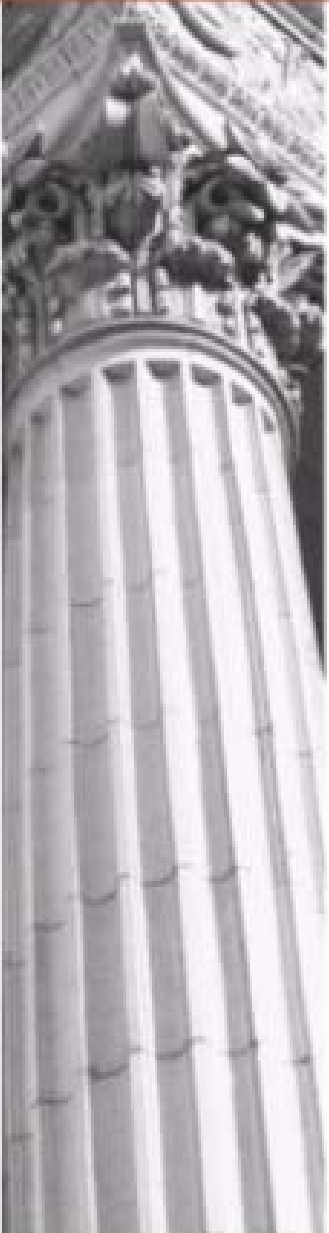
- "Voter-approved qualified mills" means a millage levied in the 2012 fiscal year or that will be levied in a subsequent fiscal year for a specific purpose or activity as stated in the question presented to and approved by the voters prior to the 2013 fiscal year and that is not a general operating millage for a county, city, village, or township.





Subject to Reimbursement

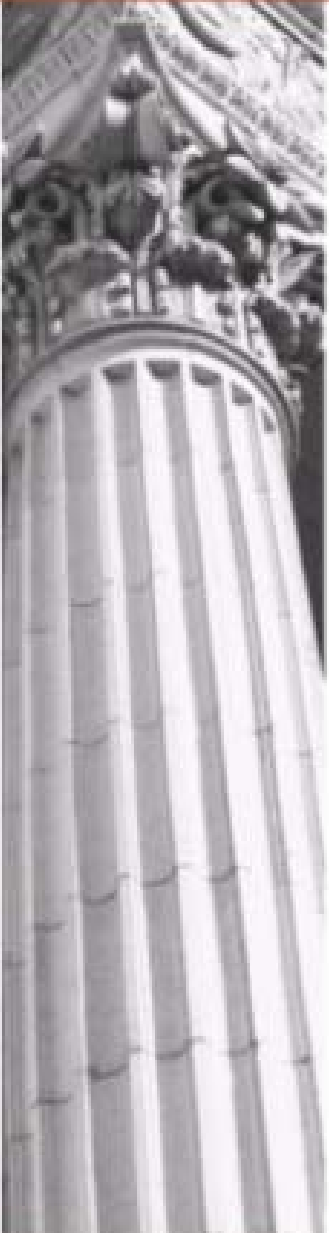
- “Lost tax capture” means a reduction in captured tax increment finance revenues to the extent that the amount of the reduction does not exceed the authority's debt service obligation for that fiscal year for obligations issued in or prior to the 2012
 - DDAs, TIFAs, LDFAs, BRDAs, Corridor Improvement Authority, Historical Neighborhood Tax Increment Finance Authority, Neighborhood Improvement Authority, Water Resource Improvement Tax Increment Finance Authority, Private Investment Infrastructure Funding Act





Subject to Reimbursement

- "Debt mill loss" means revenue loss associated with debt mills that were levied in fiscal year 2011-12 and that were not expired or been subsequently renewed.





Conflicting interest in “certainty”

Business

- Known business environment for investing, predictable tax climate
- Local Governments
 - Trust that the state government will honor commitment to reimburse local governments for revenues lost because of exemption





Conflicting interest in “certainty”

- Term limits cause long-term memory loss
- Cannot bind future legislatures to appropriate funds except through constitution
- Poison Pill
 - “This subsection does not apply if the legislature fails to appropriate the amount of revenue lost to each local taxing unit as provided in the personal property tax exemption reimbursement act.”





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Thank You for your attention

Questions?

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