Personal Property Tax Reform Update

Michigan Association of Equalization Directors Executive Board Meeting

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Howard Heideman
MI Department of Treasury

Change to Small Taxpayer Personal Property Exemption

- To be eligible for the exemption, all property used by a claimant or a related party in a city or township must have a true cash value under $80,000, including leased and vendor-supplied property. If this test is met, exemption is for personal property owned by the claimant.
- Assessor may deny exemption for current year and prior three years.
- 2013 PA 153, SB 489

EMPP Exemption

- The PPT on "Eligible Manufacturing Personal Property" will be phased off of the tax rolls over the next 10 years under the following formula:
  - Beginning in 2016, all personal property first placed in service before 2006 and after 2012 will be exempt.
  - 2017 – Property first placed in service in 2007 will also be exempt.
  - 2018 – Property first placed in service in 2008 will also be exempt.
  - 2019 – Property first placed in service in 2009 will also be exempt.
  - 2020 – Property first placed in service in 2010 will also be exempt.
  - 2021 – Property first placed in service in 2011 will also be exempt.
  - 2022 – Property first placed in service in 2012 will also be exempt.
  - 2023 – All eligible manufacturing property will be exempt.

- Eligible Manufacturing Property is property that is used at least 50% of the time in industrial processing or direct integrated support of industrial processing.

Change to EMPP Exemption

- For Eligible Manufacturing Personal Property Exemption that phases in beginning in 2016, definition of industrial processing now tied to eligibility for sales/use tax industrial processing exemption.
- One-time exemption affidavit must be filed by February 10.
- Assessor may deny exemption for current year.
- No exemption for power plant property
- 2013 PA 154, SB 490

Changes regarding ES Loss

- Reimburse for essential services (ES) loss with increased use tax $ to Authority.
- Replace local ESAs with State ESA on exempt EMPP.
- ES loss includes ES personnel pension costs and loss of future revenue from exemptions that would have expired.
- For ES loss calculation, FY 14 CAFR must incl. % of FY12 GF revenue used to fund ES.

New State Essential Services Assessment

- Levied on all exempt EMPP, starting in 2016.
- Tax base is fair market value of EMPP at time of acquisition, and presumed to be acquisition price.
- For EMPP acquired 1 – 5 years before the tax year, tax rate is 2.4 mills.
- For EMPP acquired 6 – 10 years before the tax year, tax rate is 1.25 mills.
- For EMPP acquired earlier, rate is 0.9 mills.

New State Essential Services Assessment

- By September 15, taxpayers required to submit electronically to Treasury a completed statement and full payment of the tax.
- If statement and payment are not made by November 1, the EMPP exemption is rescinded for that tax year. Taxpayers must submit a personal property statement by November 10 and exempted summer tax is added to winter bill.

New State Essential Services Assessment

- For taxpayers making a minimum of $25 million investment in additional EMPP, the Michigan Strategic Fund Board may provide a 50% or 100% exemption from the State ESA.

PA 328(MCL 211. 9f) Provisions

- If PA 328 exemption on EMPP expires before EMPP is eligible for EMPP exemption, PA 328 exemption is extended until EMPP qualifies for exemption; EMPP with extended PA 328 exemption is subject to state ESA.
- PA 328 property is also subject to state ESA if PA 328 exemption is approved after 2013, unless: 1) it is applied for before August 5, 2014 and 2) $25 million of new EMPP investment is to be made within 5 years.

PA 198 (IFT) Provisions

- If PA 198 exemption for EMPP that is in effect for 2013 expires before EMPP is eligible for EMPP exemption, PA 198 exemption is extended until EMPP is eligible for EMPP exemption; EMPP with extended PA 198 exemption is subject to state ESA.
- PA 198 exemptions for EMPP expire when EMPP is eligible for EMPP exemption.

Changes regarding TIF Plans

- Beginning for 2014, reimburse TIF plans for PPT loss. Beginning for 2016, PPT loss includes the loss of increased captured value, which means:
  - Anticipated revenue from expiring tax exemptions
  - Revenue from anticipated future investment
  - Seven tests must be met for increased captured value
- Beginning in 2016, reimbursements for TIF losses are Tier I reimbursements.

TIF Plans; tests for inclusion of increased captured value

- Before 2013, the TIF plan must have specifically projected the anticipated increase in captured value that would be used to pay 1 or more qualified obligations.
- TIF plan must be fully approved before 2013.
- Any needed BRFA work plans must be approved before 2013.
- TIF plan identifies a particular project on a specific parcel and the addition of particular EMPP.

TIF Plans; tests for inclusion of increased captured value

- The EMPP makes up at least 20% of the true cash value of the improvements. This requirement does not apply for EMPP subject to an expiring exemption.
- The project had obtained all necessary local zoning approvals before 2013.
- Before 2013, orders had been placed and significant investments made in the EMPP to be located on the site.

TIF Plans; Obligations refunded after 2012

- Cumulative TIF PPT reimbursements for a refunded obligation are limited to cumulative PPT reimbursements had the obligation not been refunded.
- If refunding results in increased school tax capture, TIF PPT reimbursements are reduced by amount of the increase in school tax capture.

Changes Regarding Timing of Reimbursement

- County allocated millage: by September 20
- Other county millage, township millage, and other millage levied 100% in December: the following February 20.
- All other millage: October 20.
- Treasury to advance to Authority $ necessary to make timely payments.

Other Reimbursement Changes

- No 2.3% threshold
- Estimated 100% reimbursement for all losses
- Current law requires each taxing unit to file reimbursement claim; under proposal, Treasury calculates reimbursements using data from assessors, equalization directors, and taxing units. TIF plans must file claim.
- Debt millage rates calculated including exempt TV; reimbursement for exempt TV

Other Reimbursement Details

- Loss from small taxpayer personal property exemption calculated by subtracting 2014 commercial personal (CP) TV and industrial personal(IP) TV from 2013 CP TV and IP TV.
- Calculations include IFT property (new at 50%).
- Calculations exclude property classified as either IP or CP in one year but classified as real property or utility personal in other.

Other Reimbursement Details

- Beginning in 2016, loss from personal property exemptions calculated by subtracting current year CP TV and IP TV from 2013 CP TV and IP TV.
- Calculations include IFT property (new at 50%).
- Calculations exclude power plant TV
- Calculations exclude property classified as either IP or CP in one year but classified as real property or utility personal in other.

Other Reimbursement Details CY 2014 and 2015

- Reimbursements initially made only for debt losses and TIF loss.
- Calculations include IFT property (new at 50%).
- In FY 2016, reimburse cities for their non-debt loss for 2014 and 2015.

Other Reimbursement Details CY 2016 through CY 2018

- Tier I Reimbursements:
  - Local school district and ISD loss
  - Essential services loss, including loss from expiring tax exemptions
  - Tax increment financing loss, including any loss from increased captured value.
  - Small taxpayer exemption loss

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Other Reimbursement Details CY 2016 through CY 2018

- Tier II Reimbursements: None
- Tier III Reimbursements: Reimbursement for all other losses, based on each taxing unit's share of the total losses and available $ after Tier I payments
- Available $ are estimated to be sufficient to provide 100% reimbursement.

Other Reimbursement Details After CY 2018

- For 2019 5% of the $ otherwise available for Tier III are distributed under Tier II based on each taxing unit’s share of EMPP tax loss calculated using modified acquisition cost of EMPP.
- That % is increased by 5% each year for 20 years, until no $ are distributed under Tier III.

New Public Acts

- SB 821 New Authority Act 2014 PA 86
- SB 822 Amendments to Use Tax Act 2014 PA 80
- SB 823 Amendments to Property Tax Act 2014 PA 87
- SB 829 State ESA to replace local ESAs 2014 PA 92

What’s next

The August 5, 2014 state-wide vote to dedicate a portion of the existing state use tax as a local tax levied by a new state-wide authority. If voters reject the proposal, the small parcel exemption will end after 2014 and the EMPP exemptions will not take effect.

Use Tax $ to Authority for Reimbursements

FY 16	$96.1 million
FY 17	$380.6 million
FY 18	$410.5 million
FY 19	$437.7 million
FY 20	$465.9 million
FY 21	$491.5 million
FY 22	$521.3 million
FY 23	$548.0 million
FY 24	$561.7 million

Est. State Use Tax $ to School Aid Fund for PPT Cuts

FY 14	$9.9 million
FY 15	$19.9 million
FY 16	$30.9 million
FY 17	$42.0 million

After FY 17, estimated 1% annual increase

Contacts

Howard Heideman
Michigan Department of Treasury

- HeidemanH@michigan.gov
- (517) 373-9002