Personal Property Tax Reform

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Explanation of Terms

- **Property Categories:** Taxable property is generally either real property (land and structures) or personal property (machinery and equipment, furniture and fixtures, etc.).
- **Property Classifications:** Both real and personal property are typically classified as either residential, industrial, commercial, agricultural, or utility. Almost all personal property classified as residential (individual) or agricultural is exempt.
- **Personal Property Taxable Value:** Taxpayers report personal property by the new acquisition cost and date acquired to the local assessor. The taxable value is one-half of the depreciated amount (also known as true cash value).
- **Millage Rate:** 1 mill = $1 per $1,000 of taxable value. Millages can be levied for specific purposes (such as a dedicated police and fire or library millage) or for general operating purposes. The 6-mill State Education Tax (SET) is a millage rate levied by the state. Local millages are typically subject to renewals.

Explanation of Terms – PPT Reform

- **Eligible Manufacturing Personal Property (EMPP):** Industrial and commercial personal property used at least 50% of the time for industrial processing or direct integrated support. Note that EMPP is defined by use rather than classification.

- **Direct Integrated Support:** Includes research and development, testing and quality control, engineering, and warehousing facilities that directly support industrial processing.

- **Municipality**: For the purpose of PPT reform, the term “municipality” is not limited to a local government such as a city, village, township, or county, but is essentially any entity that levies a millage. Taxing authorities such as community colleges, school districts, transit systems, senior centers, recreation districts, and libraries are all municipalities.

- **Essential Services**: Essential services are defined as ambulance, fire, and police services, jail operations, and funding pensions for employees that provide these services.

Two Broad Facets of PPT Reform

- Taxpayers are allowed to claim personal property exemptions.
  - Small taxpayer exemption
  - Eligible Manufacturing Personal Property (EMPP) exemption

- Reimbursement of municipalities for qualified taxable value losses.
  - Complicated mechanism
  - Reimbursement is not subject to the appropriations process

Basic Structure of PPT Reform
PPT Exemptions

- There are two types of exemptions…the small taxpayer exemption and the exemption for eligible manufacturing personal property.
  - Beginning in 2014, a small taxpayer exemption was granted to taxpayers with commercial and/or industrial personal property with a true cash value less than $80,000. The taxpayer must file an affidavit (Form 5076) each year to claim the exemption.
  - Beginning in 2016, eligible manufacturing personal property (EMPP) acquired before 2006 as well as EMPP acquired after 2012 was immediately exempt. Like the small taxpayer exemption, taxpayers must report EMPP annually to their local assessors on Form 5278.
- Eligible manufacturing personal property acquired between 2006 and 2012 will become exempt one year at a time. By 2023, all EMPP will be exempt.

Basic Structure of PPT Reform

Reimbursement

- A Local Community Stabilization Authority (LCSA) is allowed to collect a portion of the state use tax which is distributed to municipalities as a reimbursement for their qualified personal property tax losses.
- The annual dollar amounts for reimbursement are specified in statute, and the use tax collected by the LCSA never belongs to the state, so it’s not subject to appropriation.
- The LCSA collected and distributed $380.9 million in FY 2016-17 and $410.8 million in FY 2017-18. It will collect and distribute $438.0 in FY 2018-19.
- The use tax levy will continue to increase, and by FY 2027-28 the LCSA will collect and distribute $572.6 million.

Basic Structure of PPT Reform
Reimbursement

- The qualified taxable value loss is determined for each municipality.
  - The small taxpayer exemption loss is calculated as the taxable value of commercial and industrial personal property in TY 2013 minus the taxable value of commercial and industrial personal property in either TY 2014 or TY 2015, depending on which year yields the larger loss.
  - The qualified taxable value loss for eligible manufacturing personal property (EMPP) is calculated as the taxable value of commercial and industrial personal property in TY 2013 minus the taxable value of commercial and industrial personal property in the tax year for which the calculation is being made.
- Each municipality's replacement payment is its qualified taxable value loss times the lowest millage rate between 2012 and the year immediately preceding the reimbursement.
- There is a hierarchy for the reimbursements, so some municipalities are guaranteed 100% reimbursement while others aren't.

Basic Structure of PPT Reform

Reimbursement

- Certain municipalities (Tier 1) are guaranteed 100% replacement for qualified losses. They include:
  - Essential services levies by cities, villages, townships, and counties
  - Any small taxpayer exemption loss
  - Local school districts (debt, sinking fund, recreation, and any operating loss not reimbursed by the School Aid Fund)
  - Intermediate school districts (all millages)
  - Tax increment finance (TIF) authorities (includes all local development authorities)

Basic Structure of PPT Reform
Reimbursement

- Other municipalities with taxing authority (Tier 2) share any remaining replacement revenue. They include:
  - Non-essential services levied by cities, villages, townships, and counties (debt and operating losses)
  - Community colleges (debt and operating losses)
  - Libraries (debt and operating losses)
  - Other authorities (such as recreation, transit, sewer and water, etc.)

- These municipalities are not guaranteed 100% replacement for qualified losses if the remaining revenue is not sufficient to hold them harmless.
- In that instance, redistribution payments would be prorated.

Basic Structure of PPT Reform

Reimbursement

- In the event additional funding remains after both Tier 1 and Tier 2 municipalities have received 100% replacement for qualified losses, Tier 3 payments are distributed to Tier 2 recipients, resulting in greater than 100% reimbursement.
- Each municipality’s Tier 3 payment is its share of total Tier 2 payments times the total amount of Tier 3 funding available.
- Tier 3 payments have been higher than originally anticipated in both TY 2016 and TY 2017.

Tier 3 Payments
(Qualified Loss > 100%)

- In TY 2016 (FY 2016-17) there was $130.7 million still available after Tier 2 losses had been reimbursed at 100%, and in TY 2017 (FY 2017-18) the amount was $157.1 million.

	TY 2016	TY 2017
Authorities/Libraries	$9.5	$13.5
Cities	$61.5	$66.7
Community Colleges	$15.4	$24.2
Counties	$26.2	$42.0
Townships	$5.6	$7.5
Villages	$2.5	$3.1
Total Tier 3 Payments	$130.7	$157.1

Tier 3 Payments

- Why have Tier 3 payments been so large?
  - In some instances, the amount of EMPP was simply less than anticipated.
  - Although personal property was growing, 2013 might have been a relatively low base against which to measure losses.
  - New commercial personal property growth reduces a municipality's qualified EMPP loss, and in some instances completely offsets it. This reduces both Tier 1 and Tier 2 payments.

    A municipality's qualified EMPP loss is:

    $$2013\ TV_{\text{C\&I Personal Property}} - \text{Current Year } TV_{\text{C\&I Personal Property}}$$

- Such municipalities would not qualify for either Tier 2 or Tier 3 payments because they would have no qualified EMPP loss.

Governor’s Budget Proposal for FY 2018-19

- Eliminate the current distribution formula for Tier 3 payments.
- Distribute any available Tier 3 funding such that:
  - The first $15 million would fund Fire Protection Grants
  - Any remaining amount would be distributed as follows:
    - 48% to cities
    - 2% to villages
    - 5% to townships
    - 30% to counties
    - 15% to community colleges
- The distribution to cities, villages, townships, and counties would be on a per capita basis within each type of local unit.
- The community college distribution would follow the same percentage as the base appropriation.

Tier 3 Payments
(Current Law versus the Governor's Proposal)

	Current Law	Governor's Proposal	Dollar Change
Fire Protection Grants	$0.0	$15.0	$15.0
Authorities	$6.0	$0.0	-$6.0
Libraries	$7.3	$0.0	-$7.3
Cities	$67.0	$68.2	$1.2
Community Colleges	$24.2	$21.3	-$2.9
Counties	$42.0	$42.6	$0.6
Townships	$7.5	$7.1	-$0.4
Villages	$3.1	$2.8	-$0.3
Total Tier 3 Payments	$157.1	$157.1	$0.0

For more information about PPT reform:

HFA website:

https://www.house.mi.gov/hfa/PDF/Alpha/Ballot_Proposal_2014_1_Personal_Property_Tax_Summary.pdf

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