Personal Property Tax Phase-Out Overview

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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.
- **Exempt 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.
- **Municipality**: For the purpose of this legislation, the term "municipality" is not limited to a local government such as a city, village, township, or county, but also includes other taxing authorities such as community colleges, school districts, transit systems, and libraries.
- **Essential Services**: These include ambulance, fire, and police services, jail operations, and funding pensions for employees that provide these services.

Background Information

- Although business personal property has generally been fully taxable, it has received some preferential treatment over the years.

- When the Single Business Tax (SBT) was enacted in 1975, inventories became exempt and were removed from the personal property tax base.

- When the Michigan Business Tax (MBT) replaced the SBT in 2007, industrial personal property was granted an exemption from the 6-mill State Education Tax (SET) as well as the 18-mill non-homestead levy. The MBT also provided a credit for 35% of any remaining industrial personal property tax.

- Commercial personal property was granted an exemption from the 6-mill SET and six of the 18 non-homestead mills.

General Structure of the PPT Phase-Out

- Beginning in 2014, an exemption was granted to taxpayers for personal property with a true cash value less than $80,000. The taxpayer must file an affidavit each year to claim the exemption.
- Beginning in 2016, exempt manufacturing personal property (EMPP) acquired before 2006 as well as EMPP acquired after 2015 was immediately exempt. Like the small taxpayer exemption, taxpayers must report EMPP annually to their local assessors.
- Exempt manufacturing personal property acquired after 2006 and before 2016 will become exempt one year at a time over a 10-year phase-in.
- A local community stabilization authority (LCSA) was created to levy a portion of the state 4% use tax. The dollar amounts are specified in the use tax act, and are used by the LCSA to reimburse municipalities for the loss of personal property tax revenue.
- A new Essential Services Assessment (ESA) is levied by the state against those taxpayers benefiting from the EMPP exemption to help offset the loss of use tax revenue that would have accrued to the general fund. The ESA generated $67.6 million in FY 2015-16.

Distribution of Replacement Revenue

- Certain losses, referred to as unadjusted losses (or Tier 1 losses) are guaranteed 100% replacement. They include:
  - Essential services levies by cities, villages, townships, and counties
  - Any small taxpayer exemption loss
  - Local school districts (including any operating levy not reimbursed by the School Aid Fund)
  - Intermediate school districts (special and vocational education)
  - Tax increment finance (TIF) authorities

Distribution of Replacement Revenue

- Other losses, referred to as qualified losses (or Tier 2 losses) share any remaining replacement revenue, but are not guaranteed 100% replacement. They include:
  - Non-essential services levies by cities, villages, townships, and counties
  - Community colleges
  - Libraries
  - Other authorities (such as recreation, transit, sewer and water, etc.)
- In the event additional funding remains after both Tier 1 and Tier 2 losses have been reimbursed at 100% replacement, it will be distributed to Tier 2 recipients in the same proportion as Tier 2 payments.

Distribution of Replacement Revenue

- The small taxpayer exemption loss (STEL) for a municipality is its 2013 taxable value of commercial and industrial personal property minus the smaller of its 2014 or 2015 taxable value of commercial and industrial personal property.
- The EMPP loss for an individual municipality is calculated as the 2013 taxable value of commercial and industrial personal property minus the current year taxable value of commercial and industrial personal property. For a non-Tier 1 reimbursement, the STEL is subtracted to avoid double-counting.
- For both Tier 1 and Tier 2 reimbursements, the applicable millage rate is the lowest rate levied by a municipality between CY 2012 and the year prior to the replacement year.
- Each municipality's replacement payment is its small taxpayer exemption loss and EMPP loss times the millage rate, although there are also some technical adjustments for TIFs that can affect a municipality's eventual payment.

A Tale of Two Municipalities

- Assume there are just two Tier 2 municipalities which differ in taxable values and millage rates.
- For TY 2013:
  - Municipality A's taxable value of commercial and industrial personal property is $100,000 and it levies 5 mills.
  - Municipality B's taxable value of commercial and industrial personal property is $250,000 and it levies 10 mills.
- Municipality A collects $500 in personal property tax revenue and Municipality B collects $2,500.
- Now, assume it's TY 2017 and the PPT phase-out has begun.

Example 1

- Assume that $1,000 is levied by the LCSA and is available for distribution.
- The small taxpayer exemption loss (STEL) is the 2013 taxable value of commercial and industrial personal property minus the smaller of the 2014 or 2015 taxable value of commercial and industrial personal property.
- The EMPP loss is the taxable value of commercial and industrial personal property in TY 2013 minus the taxable value of commercial and industrial personal property in TY 2016.

	2013 TV	2014 TV	2015 TV	2016 TV	STEL	EMPP Loss	Mills	Tier 1	Tier 2	Tier 3	Total
A	$100,000						5				
B	$250,000						10				

Example 1

- The remaining taxable value for Municipality A is $70,000. At 5 mills, this yields $350 in personal property tax revenue, which when added to the $150 reimbursement totals $500, exactly the same amount as before the PPT phase-out.
- The remaining taxable value for Municipality B is $165,000. At 10 mills, this yields $1,650 in personal property tax revenue, which when added to the $850 reimbursement totals $2,500, exactly the same amount as before the PPT phase-out.

	2013 TV	2014 TV	2015 TV	2016 TV	STEL	EMPP Loss	Mills	Tier 1	Tier 2	Tier 3	Total
A	$100,000	$97,500	$95,000	$70,000	$5,000	$25,000	5	$25	$125	$0	$150
B	$250,000	$245,000	$240,000	$165,000	$10,000	$75,000	10	$100	$750	$0	$850
								$125	$875	$0	$1,000

Example 2

- Exactly the same assumptions as with Example 1 except that a taxpayer locates within Municipality B in TY 2016, and increases Municipality B's taxable value of new non-exempt personal property by $25,000.
- Because the change occurred in 2016, it does not affect Municipality B's small taxpayer exemption loss.
- The Tier 1 and Tier 2 reimbursements for Municipality A remain the same.

	2013 TV	2014 TV	2015 TV	2016 TV	STEL	EMPP Loss	Mills	Tier 1	Tier 2	Tier 3	Total
A	$100,000	$97,500	$95,000	$70,000	$5,000	$25,000	5	$25	$125		
B	$250,000	$245,000	$240,000		$10,000		10				

Example 2

- The remaining taxable value for Municipality A is $70,000. At 5 mills, this yields $350 in personal property tax revenue, which when added to the $200 reimbursement totals $550, $50 more than before the PPT phase-out.
- The remaining taxable for Municipality B is $190,000. At 10 mills, this yields $1,900 in personal property tax revenue, which when added to the $800 reimbursement totals $2,700.
- In the absence of the PPT phase-out, Municipality B would have collected $2,750, $50 more than under the reimbursement formula.

	2013 TV	2014 TV	2015 TV	2016 TV	STEL	EMPP Loss	Mills	Tier 1	Tier 2	Tier 3	Total
A	$100,000	$97,500	$95,000	$70,000	$5,000	$25,000	5	$25	$125	$50	$200
B	$250,000	$245,000	$240,000	$190,000	$10,000	$50,000	10	$100	$500	$200	$800
								$125	$625	$250	$1,000

Example 3

- Exactly the same assumptions as with Example 2 except that a taxpayer also locates within Municipality A in TY 2016, and increases Municipality A's taxable value of new non-exempt personal property by $25,000.
- Nothing has changed for Municipality B. Its STEL remains at $10,000 and its EMPP loss is still $50,000.
- The Tier 1 reimbursements remain the same for both.

	2013 TV	2014 TV	2015 TV	2016 TV	STEL	EMPP Loss	Mills	Tier 1	Tier 2	Tier 3	Total
A	$100,000	$97,500	$95,000		$5,000		5	$25			
B	$250,000	$245,000	$240,000	$190,000	$10,000	$50,000	10	$100			

Example 3

- The remaining taxable value for Municipality A is $95,000. At 5 mills, this yields $475 in personal property tax revenue, which when added to the $25 reimbursement totals $500.
- In the absence of the PPT phase-out, Municipality A would have collected $625, $125 more than under the reimbursement formula.
- The remaining taxable value for Municipality B is $190,000. At 10 mills, this yields $1,900 in personal property tax revenue, which when added to the $975 reimbursement totals $2,875.
- In the absence of the PPT phase-out, Municipality B would have collected $2,750, $125 less than under the reimbursement formula.

	2013 TV	2014 TV	2015 TV	2016 TV	STEL	EMPP Loss	Mills	Tier 1	Tier 2	Tier 3	Total
A	$100,000	$97,500	$95,000	$95,000	$5,000	$0	5	$25	$0	$0	$25
B	$250,000	$245,000	$240,000	$190,000	$10,000	$50,000	10	$100	$500	$375	$975
								$125	$500	$375	$1,000

This is all perfectly clear, right?

- Closing thoughts:
  - The small taxpayer exemption loss and EMPP loss are estimations based on the total taxable values of commercial and industrial personal property relative to TY 2013.
  - New development of non-exempt commercial property reduces a municipality's EMPP loss. If the development occurred in TY 2014 or TY 2015, the STEL would be reduced as well.
  - These were very simple examples designed to roughly explain a very complex process. There's actually more going on.
  - The PPT replacement process is very complex, and it's a zero-sum game.