Personal Property Tax Reform Update

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Personal Property Background

- Personal Property is machinery, tools, computers, furniture or generally property not permanently affixed to a structure.
- Household personal property is not subject to the ad valorem property tax
- There are three main classes of personal property: commercial, industrial & utility.

Personal Property Stats

- Personal property taxable value totaled $31.2 billion in tax year 2014. Personal property tax totaled $1.4 billion, including IFT and state utility tax.
- Before 2012 reforms, industrial personal property already exempt from local school operating millage and SET.
- Commercial personal property already exempt from first 12 mills of local school operating tax.

Personal Property Tax Legislation

- In 2012, legislation was passed providing personal property exemptions for small taxpayers and Eligible Manufacturing Personal Property. Laws were revised in 2013 and 2014.
- Reimbursement is provided through share of 6% Use Tax levied by Local Community Stabilization Authority.
- August 2014 voter approval of Proposal 1 allowed laws to take effect.

2014 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.
- Exemption affidavit filed annually by Feb.10 Assessor may deny exemption for current year and prior three years.
- 2013 PA 153, SB 489

Reimbursement Details
CY 2014 and 2015

- Small taxpayer exemption loss (STEL) for 2014 calculated by subtracting 2014 commercial personal (CP) TV and industrial personal(IP) TV from 2013 CP TV and IP TV.
- Calcs 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.
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Reimbursement Details CY 2014 and 2015

- Reimbursements made only for millage used to pay debt and TIF loss, with one exception.
- In FY 2016, reimburse cities for their non-debt loss for 2014 and 2015.
- For debt loss reimbursement, obligation must be incurred (nonschool) or approved by the voters (school) before 2013.
- Debt millage rates should be calculated including STEL TV; reimbursement for STEL.

Form 5192

Small Taxpayer Exemption Loss

July 2014 Debt Millage Reimbursement Claim

Issued under authority of Public Act 87 of 2014.

COMPLETE THIS FORM ONLY IF DEBT MILLAGE WAS LEVIED IN JULY 2014

Form 5192

6. Enter the 2014 total taxable value of **real and personal property**, including industrial facilities tax replacement taxable value and one-half of industrial facilities tax new facility taxable value.

7. Enter the amount of 2014 small taxpayer exemption loss (taxable value) from county equalization director.

Form 5192

8. Enter the actual debt millage rate levied in July 2014 for the payment of principal and interest of obligations incurred before 2013 that pledged the **unlimited** taxing power of the taxing unit.

9. Enter the July 2014 debt millage rate that would have been levied after adjusting for small taxpayer exemption loss for the payment of principal and interest of obligations incurred before 2013 that pledged the **unlimited** taxing power of the taxing unit. (See note below and instructions.)

Form 5192

10. For obligations incurred before 2013 that pledged the **limited** taxing power of the taxing unit, enter the amount of principal and interest that will be paid using operating millage levied in July 2014.

11. Enter the July 2014 operating millage rate levied for the payment of principal and interest of obligations incurred before 2013 that pledged the **limited** taxing power of the taxing unit. Divide line 10 by the sum of lines 6 and 7 and multiply the result by 1,000. (See note below and instructions.)

Debt Millage Rate Calculation

- For debt approved by voters before 2013, the 2014 debt millage rate calculation is debt service divided by the sum of 2014 taxable value plus the small taxpayer exemption loss.
- 2014 Debt service: $200,000
- 2014 Taxable value: $100 million
- 2014 personal property small taxpayer exemption loss: $1 million
- 2014 Debt millage rate: $200,000 divided by $101 million or 1.9802 mills.

Debt Millage Rate Calculation

- If district levies 1.9802 debt mills, reimbursement is $1 million STEL multiplied by 1.9802 mills = $1,980.
- If district levies 2.0 debt mills, an excess of 0.0198 mills, reimbursement is $1,980 minus ($100 million times .0198 mills) =

  $1,980 minus $1,980 = 0.

Form 5220

Small Taxpayer Exemption Loss

December 2014 Debt Millage Reimbursement Claim

Issued under authority of Public Act 87 of 2014.

COMPLETE THIS FORM ONLY IF MILLAGE WAS LEVIED IN DECEMBER 2014 AND USED TO PAY DEBT

Form 5220

7. Enter the amount of 2014 small taxpayer exemption loss (taxable value) from county equalization director.

8. Enter the actual debt millage rate levied in December 2014 for the payment of principal and interest of obligations incurred before 2013 that pledged the **unlimited** taxing power of the taxing unit.

Form 5220

9. Enter the December 2014 debt millage rate that would have been levied after adjusting for small taxpayer exemption loss for the payment of principal and interest of obligations incurred before 2013 that pledged the **unlimited** taxing power of the taxing unit. (See note below and instructions.)

10. For obligations incurred before 2013 that pledged the **limited** taxing power of the taxing unit, enter the amount of principal and interest that will be paid using operating millage levied in December 2014. DO NOT enter debt service for mills reported on line 8.

Form 5220

11. If line 8 is greater than line 9 or in line 10 is greater than zero, enter the 2014 total taxable value of all **real and personal property**, including industrial facilities tax replacement taxable value and one-half of industrial facilities tax new facility taxable value.

12. Check whether the limited tax pledge payment amount you reported on line 10 is to be paid from all general fund revenue or specifically from property taxes.

- Repaid from General Fund Revenue
- Repaid only from Property Taxes

Form 5220

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13. If you checked “Repaid only from Property taxes” on line 12, enter “1” on this line. Otherwise, complete lines 15-19 on page two and enter the line 19 decimal fraction here (for example, 0.33333).

14. Enter the December 2014 operating millage rate levied for the payment of principal and interest of obligations incurred before 2013 that pledged the **limited** taxing power of the taxing unit. Divide line 10 by the sum of lines 7 and 11 and multiply the result by line 13 and by 1,000.

Form 5220

15. Provide Estimated or Actual GF Revenue and Property Tax for the fiscal year selected (check the appropriate fiscal year):

FY 2012-2013

FY 2013-2014

FY 2014-2015

16. Check whether the GF Revenue and Property Tax is an estimate or actual.

- Estimate
- Actual

Form 5220

17. For the year checked on line 15, enter total general fund property tax revenue.

18. For the year checked on line 15, enter total general fund revenue.

19. Divide line 17 by line 18, and enter the result here and on line 13.

EMPP Exemption

- The PPT on “Eligible Manufacturing Personal Property” will be phased off of the tax rolls over the next 9 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 2006 will also be exempt.
  - 2018 – Property first placed in service in 2007 will also be exempt.
  - 2019 – Property first placed in service in 2008 will also be exempt.
  - 2020 – Property first placed in service in 2009 will also be exempt.
  - 2021 – Property first placed in service in 2010 will also be exempt.
  - 2022 – Property first placed in service in 2011 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 20 with PPT & ESA statement.
- Assessor may deny exemption for current year.
- No exemption for property used to generate, transmit, or distribute electricity for sale.
- 2013 PA 154, SB 490; 2014 PA 87, SB 823

Other Reimbursement Changes

- Beginning for 2016, estimated 100% reimbursement for all millages.
- Reimbursements for operating millage will be calculated using data available to Treasury. Taxing units will not have to claim reimbursement for operating millage.
- Taxing units will continue to report debt millage levied.

Other Reimbursement Details

- Beginning for 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 property classified as either IP or CP in one year but classified as real property or utility personal in other.

Other Reimbursement Provisions

- Except for debt millage, reimbursements calculated using each taxing unit's sum of the lowest rate of each individual millage levied between 2012 and the immediately preceding year. Treasury reports rates by May 1 of each year.
- Beginning in 2016, debt rates reported to Treasury by August 15.

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.

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 Provisions—Prior Year Adjusts

- Except for debt losses and essential services loss, reimbursements for a year are adjusted to reflect the final court order related to any prior year calculation.
- Adjustment made only if changes in prior-year taxable value can be calculated from taxable values reported by county treasurers to MI Department of Education.
- Need a way to adjust MDE taxable values for CP and IP excluded from calculations.

Other Reimbursement Provisions—Millage Used for Essential Services

- Reimbursement for essential service millage includes reimbursement for loss from expiring tax exemptions.
- Need to clarify calculation and reporting of the number of general operating mills used for essential services.
- Need to clarify how to calculate loss from expiring tax exemptions.

Reporting Details 2014

- By June 5, 2014, assessors report to CED 2013 and 2014 TV of CP and IP of each taxing unit.
- By June 20, 2014, CEDs report to Treasury the 2013 and 2014 TV of CP and IP of each taxing unit.
- Reports calculate small taxpayer exemption loss by subtracting 2014 CP TV and IP TV from 2013 CP TV and IP TV.

Reporting Details Beginning 2016

- By June 5, assessors report to CED current TV of CP and IP of each taxing unit.
- By June 20, CEDs report to Treasury the current year TV of CP and IP of each taxing unit.
- Reports calculate personal property exemption loss (PPEL) by subtracting current year CP TV and IP TV from 2013 CP TV and IP TV.

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 per approval resolution.

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 based on ½ of FMV*.
- PA 198 exemptions for EMPP expire when EMPP is eligible for EMPP exemption. For original term of PA 198 exemption that was in effect for 2013, state ESA is based on ½ of FMV*.

Changes regarding TIF Plans

- Beginning for 2014, reimburse TIF plans for PPT loss.TIF plans file Form 5176. 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.

New State Essential Services Assessment (SESA)

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

New State Essential Services Assessment

- By August 15, taxpayers required to submit electronically to Treasury a completed statement and full payment of the tax.
- If tax not paid, Treasury sends notice by Sept. 15, and imposes penalty up to 5%.
- If statement and payment are not made by October 15, the EMPP exemption is rescinded for that tax year. Taxpayers must submit a personal property statement not later than 30 days after rescission and exempted taxes are billed.

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.

2015 Legislation--Enrolled House Bills 4553 – 4558, Public Acts 119 - 124

- In 2015, assessors and equalization directors will report 2015 taxable value of CP and IP property and calculate 2013 CP/IP TV minus 2015 CP/IP TV for each taxing unit.
- 2015 reimbursements based on greater of 2013 minus 2014 calculation and 2013 minus 2015 calculation, which is called the 2015 small taxpayer exemption loss.

Use Tax $ to Authority for Reimbursements

FY 16	$96.4 million*
FY 17	$380.9 million*
FY 18	$410.8 million*
FY 19	$438.0 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

* Up to $0.3 million for administration

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

2014 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

2015 Public Acts

- HB 4553 Amendments to Property Tax Act 2015 PA 119
- HB 4554 Amendments to State ESA 2015 PA 120
- HB 4556 Amendments to Local Community Stabilization Authority Act 2015 PA 122
- HB 4557 Amendments to 1974 PA 198 2015 PA 123

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