# PERSONAL PROPERTY TAX REFORM UPDATE

## Local Government Reimbursement Outline

**Michigan Association of County Treasurers Conference**

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# PERSONAL PROPERTY TAX LEGISLATION

- In 2012, legislation was passed providing personal property exemptions for small taxpayers (starting in 2014) and Eligible Manufacturing Personal Property (phase-in starting in 2016). Laws revised in 2013 - 2016
- August 2014 voter approval of Proposal 1 allowed laws to take effect
- Reimbursement is provided through a share of the 6% Use Tax levied by the Local Community Stabilization Authority.

# 1. Small Taxpayer Exemption

- Exemption for commercial and industrial personal property
- All personal property of claimant in a city or township owned by, leased to, or controlled by taxpayer must have a true cash value under $80,000 (as of prior December 31st)
- Exemption effective in 2014
- Exemption affidavit to be filed by property owner by February 10th of each year (filed each year because based on each year's value)

# 2. Eligible Manufacturing Personal Property Exemption

- Exemption applies to New EMPP (placed in service after 12/31/2012) or EMPP that is at least 10 years old
- Annual affidavit filed by property owner by February 20. Deadline for 2016 and 2017 extended until May 31.
- Must include schedule of PP eligible for exemption as New or Previously Existing
- Exemption began in 2016

# EMPP Exemption

- The PPT on “Eligible Manufacturing Personal Property” will be phased off of the tax rolls over the next 7 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.

# EMPP Definition

- "Eligible manufacturing personal property" means all personal property located on occupied real property if that personal property is used at least 50% of the time in industrial processing or direct integrated support.
- "Industrial processing" is defined in the general sales tax / use tax act.
- - Does not include power plant or utility property

# EMPP Definition

- "Direct integrated support" means

1. Research and development
2. Testing and quality control functions
3. Engineering
4. Receiving or storing equipment, materials, supplies, parts, or components for industrial processing, or scrap materials or waste resulting from industrial
5. Storing of finished goods inventory
6. Sorting, distributing, or sequencing functions that optimize transportation and just-in-time inventory management and material handling

# 3. Extension of Existing Personal Property Tax Abatements

- If EMPP is subject to an existing tax abatement and the abatement/exemption expires before EMPP is eligible for EMPP exemption, the abatement/exemption is extended until EMPP qualifies for exemption
    - PA 328 Personal Property Exemption (MCL 211.9f)
    - Act 198 Industrial Facilities Tax Abatement
    - Technology Park Development Facilities Tax Abatement
    - Enterprise Zone Exemption

# Local Community Stabilization Authority (LCSA)

- Municipalities are reimbursed by the LCSA from the “Local Community Stabilization Share” portion of the Use Tax
- LCSS moneys are not state funds and are considered to be proceeds of a local tax, not a state tax.
- LCSS portion of Use Tax are amounts specifically identified in the law for the years 2016 to 2028, then increases by personal property growth factor
- LCSS disbursements are not subject to annual state appropriations

# Tier Distribution System
# CY 2016 THROUGH CY 2018

- Tier I Reimbursements—Guaranteed 100% reimbursement:
  - Local school district and ISD loss
  - Essential services loss, including loss from expiring tax exemptions
    - Ambulance Services
    - Police Services
    - Fire Services
    - Jail Services
    - The funding of pensions for personnel providing above services
  - Tax increment financing loss, including any loss from increased captured value
  - Small taxpayer exemption loss, calculated by subtracting the lesser of 2014 and 2015 PP TV from 2013 PPTV.

# Tier Distribution System
# CY 2016 THROUGH CY 2018

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

# Tier II Reimbursement AFTER CY 2018

- For 2019 5% of the funds otherwise available for Tier III are distributed under Tier II based on each taxing unit's share of EMPP tax loss calculated using acquisition cost of exempt EMPP. Exempt EMPP acquisition cost is reported on Form 5278, Affidavit and Statement for EMPP and ESA
- That percentage is increased by 5% each year for 20 years, until no funds are distributed under Tier III.
- The policy idea is that eventually non-essential services losses should be based on where industrial personal property is located in the State, rather than based on the losses comparing the current year to 2013 personal property levels.

# Use Tax Money Allocated to LCSA

| Fiscal Year | Amount | Fiscal Year | Amount |
|---|---|---|---|
| 2016 | $96.4* million | 2023 | $548.0 million |
| 2017 | $381.0* million | 2024 | $561.7 million |
| 2018 | $410.8* million | 2025 | $569.8 million |
| 2019 | $437.7 million | 2026 | $571.4 million |
| 2020 | $465.9 million | 2027 | $572.2 million |
| 2021 | $491.5 million | 2028 | $572.6 million |
| 2022 | $521.3 million | 2029 and thereafter | Increase by 1% per year |

# REIMBURSEMENT FOR 2016+

- Beginning for 2016, there is an estimated 100% reimbursement for <u>all</u> millages.
- Reimbursements for most millage will be calculated using millage rates available to Treasury and personal property exemption loss amounts reported by county equalization directors. Taxing units will not have to claim reimbursement.
- Local school districts and ISDs will continue to report debt millage levied.

# OTHER REIMBURSEMENT DETAILS

- Beginning for 2016, loss from personal property exemptions will be calculated by subtracting current year commercial personal (CP) TV and industrial personal (IP) TV from 2013 CP TV and IP TV.
- Calculations include IFT property (new facilities at 50%).
- Calculations exclude property classified as either IP or CP in one year but classified as real property or utility personal in other.
- Treasury removes renaissance zone TV from calculation for millage for which RZ property is exempt.

# Personal Property Exemption Loss

- Need REVISED Personal Prop. Summary Report from County Equalization.

| Code | Personal Property Summary Report for Debt Millage Rate and Reimbursement Calculations 81 WASHTENAW COUNTY. Make sure to enter values for each taxing authority listed here, to the right through column O. Taxing Authority: School Dist, Intermediate School Dist, Community College | Enter 'IC' if the taxing authority exists in multiple counties | If IC, enter the name of the county responsible for calculating the MRF for this taxing authority. This county will also be responsible for reporting the total taxable value of this taxing authority on the IC form. | Ad Valorem Roll: List the Total Taxable Value Requested Below from the Ad Valorem Roll for Each Taxing Authority Listed for Year: 2013 FINAL TV — Commercial Personal Property | Ad Valorem Roll 2013 FINAL TV — Industrial Personal Property | IFT Roll: List the Taxable Value Requested Below from the Industrial Facilities Tax Exempt Roll (IFT) for Each Taxing Authority Listed for Year: 2013 FINAL TV — 1/2 of the Total IFT New Facility Personal Property TV where the Land is Classified as Commercial Real | IFT Roll 2013 FINAL TV — 1/2 of the Total IFT New Facility Personal Property TV where the Land is Classified as Industrial Real | IFT Roll 2013 FINAL TV — IFT Replacement/Rehab TV of Personal Property | 2013 Taxable Value Total | Ad Valorem Roll: List the Total Taxable Value Requested Below from the Ad Valorem Roll for Each Taxing Authority Listed for Year: 2016 TV as of State Equalization in May — Commercial Personal Property | Ad Valorem Roll 2016 TV as of State Equalization in May — Industrial Personal Property | IFT Roll: List the Taxable Value Requested Below from the Industrial Facilities Tax Exempt Roll (IFT) for Each Taxing Authority Listed for Year: 2016 TV — 1/2 of the Total IFT New Facility Personal Property TV where the Land is Classified as Commercial Real | IFT Roll 2016 TV — 1/2 of the Total IFT New Facility Personal Property TV where the Land is Classified as Industrial Real | IFT Roll 2016 TV — IFT Replacement/Rehab TV of Personal Property | 2016 Taxable Value Total | Personal Property Exemption Loss [2013 TV - 2016 TV]. A Positive Amount Represents the Amount of Personal Property Exemption Loss. A Negative Amount Will Appear if the 2016 TV is Greater than the 2013 TV - This Indicates there is No Exemption Loss for |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 81010 | **ANN ARBOR** | | | 258,169,576 | 71,555,230 | 1,371,475 | 6,625,150 | - | 337,721,431 | **283,266,540** | **44,500,600** | 744,295 | 2,682,405 | | 331,193,840 | 6,527,591 |
| 81040 | **CHELSEA** | IC | Washtenaw | 12,450,720 | 29,446,034 | - | 6,114,593 | - | 48,011,347 | 14,469,279 | **6,259,119** | | 2,278,563 | | 23,006,961 | 25,004,386 |
| 46060 | CLINTON | IC | LENAWEE | 324,000 | 269,100 | - | - | - | 593,100 | 356,600 | - | | - | | 356,600 | 236,500 |
| 38040 | COLUMBIA | IC | Jackson | 3,000 | - | - | - | - | 3,000 | - | - | | - | | - | 3,000 |
| 81050 | **DEXTER** | IC | Washtenaw | 11,656,071 | 32,761,717 | - | 3,499,350 | - | 47,917,138 | 12,298,004 | **13,360,840** | | **2,917,850** | | 28,576,694 | 19,340,444 |
| 38050 | GRASS LAKE | IC | Jackson | 301 | - | - | - | - | 301 | - | - | | - | | - | 301 |

# OTHER REIMBURSEMENT PROVISIONS

- Except for local school/ISD debt millage, reimbursements are 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. Millage rates posted at http://www.michigan.gov/taxes/0,4676,7-238-43535_72736-358296--,00.html
- Beginning in 2016, school/ISD debt rates must be reported to Treasury by August 15 on Form 5451.

# FY 2018 BUDGET PREPARATION

- In estimating FY 18 revenues, for the millage rates being reimbursed, local units should assume that their FY 18 property tax revenues from industrial/commercial personal property, including LCSA reimbursement, will equal their FY 14 property tax revenue from industrial/commercial personal property.
- Millage increases after 2012 will not be reimbursed.

# TIMING OF REIMBURSEMENT

- County allocated millage: by September 20 (November 20, 2017).
- Other county millage, township millage, and other millage levied 100% in December: the following February 20.
- All other millage: October 20 (November 20, 2017).
- Treasury to advance to Authority the funds 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.

# MILLAGE USED FOR ESSENTIAL SERVICES

- Reimbursement for essential service millage (used for police, fire, ambulance, jails) is calculated separately from reimbursement for other mills and includes reimbursement for loss from expiring tax exemptions.
- Assessors must report loss from expiring tax exemptions on Form 5403 and Form 5429.
- Form 5448 calculates the percentage of general operating mills used for essential services.
- The form divides FY 12 general fund adjusted essential services expenditures by FY 12 adjusted total general fund expenditures.
- Form 5448 is filed one time only.

# TIF PLAN REIMBURSEMENT

- Beginning for 2014, TIF plans will be reimbursed for PPT loss. (TIF plans file Form 5176, 5176BR, or 5176 ICV.)
- 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.

- **Other Municipalities**
- Other Municipalities – PPT Distribution by Payee
- Other Municipalities – 2016 PPT Reimbursement Calculation Tool
- See Saginaw County example

# CURRENT ISSUES

- Should personal property exemption loss continue to be increased for negative small taxpayer exemption loss?
- Should distribution of excess reimbursement $ be changed?
- Should reimbursement be based on prior year's rates, instead of lowest rates back to 2012?
- Should law require reimbursements to be allocated to each millage levied?
- Should reimbursements for county road millage be distributed like the millage?
- Is there a better way to adjust for TV changes?

# CONTACTS FOR REIMBURSEMENT QUESTIONS

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