MICHIGAN PERSONAL PROPERTY TAX REFORM

In an ongoing effort to make the state a more attractive place for businesses to invest and grow, Michigan is phasing out its Personal Property Tax (PPT) for most businesses beginning in 2014. This reform will substantially reduce compliance and administrative costs for businesses and will be especially attractive to manufacturers who rely on expensive capital investments in tools and other equipment. Table 1 and Table 2 summarize the timing of the PPT phase out for small businesses and eligible manufacturing personal property.

ELIGIBLE MANUFACTURING PERSONAL PROPERTY

Eligible manufacturing personal property could include both commercial personal property and industrial personal property. More specifically, the term refers to all personal property located on real property where that personal property is used more than 50 percent of the time in industrial processing or in supporting industrial processes.

TABLE 1. Personal Property Tax Phase Out	
A. Small Business Personal Property	
If commercial or industrial personal property owned or under control of a business within a city or township is worth a total of $80,000 or less, the personal property is 100% exempt beginning in 2014.	
B. Eligible Manufacturing Personal Property	
Purchase Period*	**Status**
Purchased by first owner after 2012	100% exempt beginning in 2016
Purchased by first owner before 2006	100% exempt beginning in 2016
Purchased by first owner in 2006 through 2012	100% exempt when equipment becomes 10 years old *(see Table 2 for detailed schedule)*

** Note: The exempt status is based on the year the equipment was first purchased by its first owner, not necessarily the current owner.*

EXISTING ABATEMENTS

Personal property already under abatement may qualify for an extension of the abatement term until the personal property qualifies for the new PPT exemption. For those businesses with PA 198 or PA 328 abatements that expire after 2013 but before the eligible manufacturing PPT exemption becomes effective, the abatements on that eligible manufacturing personal property are extended until the eligible manufacturing personal property becomes exempt under the new PPT exemption schedule. See Table 1 and Table 2 for more information.

POTENTIAL CHANGES TO PPT REFORM

PPT reform is contingent upon voters approving an August 2014 ballot proposal related to this package. Should voters reject the ballot proposal, exemptions occurring in 2014 will remain in effect only until the end of the year, including extensions for PA 198 and PA 328 abatements. All other future exemptions will not go into effect.

TABLE 2. Exemption Schedule for Existing Property

Purchased by first owner in	100% exemption goes into effect
2006	2017
2007	2018
2008	2019
2009	2020
2010	2021
2011	2022
2012	2023

MICHIGAN PERSONAL PROPERTY TAX REFORM *continued*

LOCAL GOVERNMENT REIMBURSEMENTS

Local governments have the option of levying a special assessment to fund essential services, which would be assessed on the value of real property for those businesses claiming the eligible manufacturing PPT exemption to reimburse up to 100 percent of lost PPT revenue for essential services. Essential services are strictly defined as police, fire, jail, and ambulance services. Other local government reimbursements will come from existing use tax collections, which will continue to be at the constitutional limit of 6 percent for individuals and businesses. Those collections will now be divided into state and local components.

State use tax revenue currently earmarked to the general fund will cover 100 percent of lost PPT revenue for K–12 operating costs. A newly created Metropolitan Authority with statewide jurisdiction will be established to distribute local use tax revenue to reimburse lost PPT revenue for 100 percent of ISD operating costs and existing K–12 and ISD school bond debt. The Metropolitan Authority will also reimburse lost PPT revenue for an estimated 80 percent of the sinking fund and recreational mills and an estimated 80 percent of non-essential services for eligible municipalities. Eligible municipalities include all community colleges and all other municipalities losing over 2.3 percent of their taxable value to the PPT exemptions. See Table 3 for more information.

SPECIAL ASSESSMENT FOR ESSENTIAL SERVICES

Businesses claiming the eligible manufacturing PPT exemption may be subject to a special assessment to fund essential services levied by local governments. This special assessment would be on the value of the participating businesses' real property and cannot exceed the PPT savings for essential services. For more detailed information on local government reimbursements, see Table 3.

CONTACT

For more information, contact the Michigan Economic Development Corporation℠ (MEDC) Customer Assistance Center at 517.373.9808.

TABLE 3. Local Government Reimbursements

Funding source	Type of service/cost	Rate of reimbursement
Special assessment for essential services *(local option)*	Essential services *(police, fire, jail, and ambulance)*	Up to 100% of lost PPT revenue
Portion of state use tax is dedicated to school aid fund	K–12 operating costs	100% of lost PPT revenue
Portion of 6% use tax is levied by Statewide Metropolitan Authority	ISD operating costs and existing K–12 and ISD school bond debt	100% of lost PPT revenue
	Sinking fund and recreational mills	Estimated 80% of lost PPT revenue
	Non-essential services *(all services except police, fire, jail, and ambulance)*	Estimated 80% of lost PPT revenue to all community colleges and other municipalities losing over 2.3% of taxable value to PPT exemptions

Note: The Use Tax remains at the constitutional limit of 6 percent for individuals and businesses.