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DISTRIBUTION OF USE TAX TO LOCAL UNITS TO REPLACE LOST PERSONAL PROPERTY TAXES

House Bill 5176 as introduced
Sponsor: Rep. Jeff Farrington
Committee: Tax Policy
Complete to 1-19-16

SUMMARY:

House Bill 5176 amends the Local Community Stabilization Authority Act to modify how municipal reimbursements for lost personal property tax revenue are calculated, and pushes back statutory deadlines by which the Department of Treasury must make certain calculations for cities and by which the Stabilization Authority must make payments to cities.

The Local Community Stabilization Authority Act (Public Act 86 of 2014) created a special authority, which directly levies a portion of the state use tax and distributes it to municipalities to reimburse them for lost revenue from the phase-out of personal property taxes put in place by Public Act 80 of 2014. PA 80 was enacted by the Legislature and then approved by voters at referendum in August 2014.

The phase-out applies to (1) personal property predominantly used in industrial processing or direct integrated support (property referred to as "eligible manufacturing property"), and to (2) the personal property of any business when the combined true cash value of its personal property in a particular local tax collecting unit in the immediately preceding year is less than $80,000. This second exemption is called the "small taxpayer exemption."

The portion of the use tax levied by the authority is defined in statute as a specific dollar amount for each fiscal year until Fiscal Year 2027-28, with the amount increasing by 1% each year after that. This amount is intended to reimburse local units for 100% of their property tax loss that affects school (local and ISD) debt loss, intermediate school district taxes, school operating loss not reimbursed by the School Aid Fund, losses related to cost of providing "essential services" (police, fire, etc.), tax increment financing losses, and the revenue lost from the small taxpayer exemption.

As noted above, House Bill 5176 amends the LCSA Act to modify how local unit reimbursements are calculated, and pushes back the deadlines by which the Department of Treasury must make certain calculations for cities and by which the Stabilization Authority must make payments to cities. (Two deadlines are amended: the September 15, 2015, date for the department to make certain reimbursement-related calculations for cities would be changed to January 20, 2016; and the October 20, 2015, date for payments by the Authority would be moved to February 20, 2016.)

The bill would exclude debt millage from the reimbursement calculation for cities (in Section 14(3)) so that reimbursement is based on personal property tax losses related to millage rates <u>other than</u> debt millages. The calculation in that section is modified so that cities do not lose reimbursement because operating millage is used to pay debt.

In addition, the bill would repeal Section 20 and modify Section 21 of the act. Section 20 denies reimbursement to a municipality that increases a millage rate without voter approval to replace certain lost property taxes that were repaying essential service obligations. Instead of denying any reimbursement, House Bill 5176 deducts the excess debt millage levied by the municipality from the municipality's distribution of use tax for losses from the small taxpayer exemption. The bill would also rewrite a current provision that requires a municipality to use the distribution to first replace debt loss or school debt loss and denies reimbursement if it has increased its millage rate without voter approval to replace debt loss or school debt loss. Instead, under House Bill 5176, a municipality that does not use amounts received for debt millage to pay debt would be penalized by deducting the amount not used to pay debt from a subsequent payment.

Also, Section 14 is amended to reflect statutory changes made by Public 122 of 2015 (House Bill 4556), part of a package of bills providing technical "clean-up" amendments to the legislation phasing out certain personal property taxes.

FISCAL IMPACT:

Because this bill does not change the total amount that the Local Community Stabilization Authority levies on an annual basis, there is no fiscal impact to state revenue. Certain municipalities may see changes from the amount of revenue they would have received under current statutory language.

Legislative Analyst/Fiscal Analyst: Georges Tippens
Chris Couch
Fiscal Analyst: Jim Stansell