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BILL ANALYSIS

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Senate Bill 34 (as introduced 1-19-11)
Sponsor: Senator Mike Nofs
Committee: Finance

Date Completed: 2-3-11

CONTENT

The bill would amend the General Property Tax Act to exempt all personal property from the collection of taxes under the Act, for taxes levied after December 31, 2011, notwithstanding any other provision of the Act.

Proposed MCL 211.9n

BACKGROUND

The General Property Tax Act imposes a tax on all nonexempt real and personal property in the State. Personal property includes, for example, commercial equipment, furniture, and fixtures, industrial machinery and equipment, gas and electric transmission and distribution equipment, oil pipelines, and agriculture equipment and produce that are not exempt. Like real property, personal property is assessed at 50% of its true cash value, and the amount of the tax is determined by multiplying the tax rate by the taxable value of the property (which is the same as its assessed value, in the case of personal property). The tax on real and personal property is collected in the same manner, and the distribution of tax revenue is the same.

The Act contains a number of exemptions for various types of personal property, including the following:

-- Personal property owned and used by a "householder".
-- Property used in agricultural operations and farm implements held for retail sale.
-- Inventory.
-- Heavy earth-moving equipment.
-- Special tools (e.g., dies, jigs, and molds).
-- Computer software.
-- Alternative energy personal property.
-- Personal property owned or used by a qualified high-technology business located in an innovations center, with the approval of the local tax collecting unit.
-- Personal property of a housing corporation used in connection with a residential facility for elderly or disabled individuals.
-- Personal property owned by a nonprofit theater, library, cultural, or scientific institution, a nonprofit charitable institution, or a veterans home.
-- Personal property of a nonprofit charitable housing organization used for its retail store.

Personal property in a renaissance zone is exempt under the Act, although the property remains subject to taxes levied for intermediate school district (ISD) enhancement mills, school district enhancement mills, and local school district sinking fund millage; special assessments; and taxes levied to pay general obligation bonds. Subject to local approval and the same exceptions (other than local district enhancement millage), the Act also exempts the personal property of a qualified start-up business.

In addition, property that is classified as industrial personal property or commercial personal property is exempt from property taxes levied for school operating purposes.

The Act also exempts new personal property of an eligible business located in an eligible district or a distressed parcel, subject to approval by the eligible local assessing district (a city, village, or township that contains an eligible distressed parcel) or the board of a NextMichigan development corporation.

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would increase General Fund and decrease School Aid Fund (SAF) revenue, as well as reduce local unit revenue. The bill also would increase School Aid Fund expenditures, assuming per-pupil funding guarantees would be maintained. School Aid Fund revenue would be affected by a reduction of revenue from the State Education Tax, while General Fund revenue would be affected by a reduction in utility property taxes and because taxpayers would no longer claim the credit under the Michigan Business Tax (MBT) for personal property taxes.

(State Education Tax revenue and the utility property tax under Public Act 282 of 1905 would be affected because those taxes do not apply to property that is exempt under the General Property Tax Act. The MBT Act allows taxpayers to claim a credit for a percentage of property taxes paid on industrial personal property (35%), personal property of a telephone company (13.5%), and natural gas pipelines (10%).)

Based on 2010 taxable values, taxpayers paid approximately $1.2 billion in personal property taxes, of which approximately $145.7 million was offset by property tax credits under the MBT. The School Aid Fund received approximately $103.8 million in personal property taxes under the State Education Tax, while the General Fund received approximately $52.7 million from taxes on utility property. The net impact on the General Fund was a loss of $93.0 million. As a result, the bill would reduce SAF revenue by $103.8 million and increase General Fund revenue by $93.0 million.

Local school districts received approximately $195.8 million in personal property taxes for operating purposes, based on 2010 taxable values. This revenue reduced the amount of SAF expenditures needed to bring local school districts up to their guaranteed per-pupil funding level. The bill would reduce local operating taxes by approximately $195.8 million. If per-pupil funding guarantees were maintained, the loss of local revenue would require additional SAF expenditures. Assuming per-pupil funding guarantees were unchanged, between the loss of State Education Tax revenue and the increase in SAF expenditures, the net impact on the SAF would total approximately $299.6 million.

Local units received approximately $877.7 million in personal property taxes, based on 2010 taxable values. This revenue would have reflected millages levied by local entities with taxing authority, and would include mills levied for local school district debt, county levies, and city/village/township levies, as well as levies by other authorities such as library authorities, zoo and park levies, and public safety levies for police and/or fire service.

It appears that the bill would not affect taxes levied on personal property under Public Act 198 of 1974 (industrial facilities taxes). As a result, local units would be expected to lose $783.7 million under the bill (rather than $877.7 million).

Fiscal Analyst: David Zin