Personal Property Tax Phase-Out

Jim Stansell, Senior Economist
House Fiscal Agency

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Legislative History of the PPT Phase-Out

Legislation to exempt certain personal property from taxation was enacted in 2012.

- 2012 PA 397 – 2012 PA 404, 2012 PA 406 – 2012 PA 408
- The package defined which personal property would be eligible for an exemption, identified a funding source to reimburse taxing authorities for the loss of revenue, established a mechanism for reimbursing losses, and created a statewide local community stabilization authority (LCSA) to oversee the process.

The original package was amended in 2014.

- 2014 PA 80, 2014 PA 81, 2014 PA 86 – 2014 PA 93

The phase-out was contingent on a public referendum (Ballot Proposal 1 of 2014), which replaced a portion of the state use tax with a share levied by the LCSA.

Two Primary Facets

Which personal property is exempt?

- Most industrial
- Some commercial
- Utility property is not eligible

How are municipalities reimbursed for lost revenue?

- The LCSA levies a share of the state 4% use tax, the annual amount of which is set in statute.
- The Department of Treasury calculates the reimbursements, but the LCSA distributes the payments.

LCSA Use Tax Levy

The LCSA levies a portion of the state 4% use tax. Because the LCSA levies the tax, it is not a transfer or an appropriation of state funds. Dollar amounts below are in millions.

Tax Year	Use Tax Levy		Tax Year	Use Tax Levy		Tax Year	Use Tax Levy
2016	$374.3		2020	$484.9		2024	$568.6
2017	$404.7		2021	$513.7		2025	$571.1
2018	$430.8		2022	$543.9		2026	$572.0
2019	$460.4		2023	$558.6		2027	$572.5

After 2027 the amount increases by a factor based on personal property growth.

Which Personal Property is Exempt?

The Small Taxpayer Exemption Loss (STEL)

- Commercial and industrial personal property, provided the combined true cash value is less than $80,000. The exemption began in TY 2014.
- Beginning in 2019, a taxpayer must no longer file for the exemption each year. Once an exemption has been claimed, it remains in force until rescinded.

Eligible Manufacturing Personal Property (EMPP)

- Commercial and industrial personal property used at least 50% of the time for industrial processing, or direct integrated support. Industrial processing does not include generation, transmission, or distribution of electricity for sale.
- Direct integrated support can include such activities as R&D, testing and quality control, and warehousing facilities that support industrial processing.
- Note that EMPP is defined by use rather than classification.
- The exemption phase-in started with TY 2016, and all EMPP will be exempt by TY 2023.

How Are Municipalities Reimbursed?

Each municipality is reimbursed based on its qualified loss.

- Qualified loss is calculated as the change in a municipality's taxable value of commercial and industrial personal property in a given year relative to TY 2013, times the applicable millage rate.
- The total statewide qualified loss is the sum of the individual qualified losses.

There is a priority to the reimbursement payments.

- Some municipalities are guaranteed 100% replacement for qualified losses.
- Others receive payments based on their shares of the total statewide qualified losses, which may result in replacement revenue of less than 100% or more than 100%, depending on available funding.

100% Guaranteed Reimbursement

The LCSA will provide 100% reimbursement for essential services and school-related millages

- Essential services millages (police, fire, ambulance, and jails)
- Local school and Intermediate School District (ISD) debt loss
- Local school sinking fund, recreation, and playground millages
- ISD operating millages
- School operating losses not reimbursed by the School Aid Fund
- Declines in TIFA plan captures of commercial and industrial personal property
- Small Taxpayer Exemption Loss (STEL)

Each municipality is reimbursed 100% for its qualified loss.

The small taxpayer exemption loss for each municipality is calculated based on the qualified loss between TY 2013 and TY 2014 and the qualified loss between TY 2013 and TY 2015, whichever is larger.

100% Guarantee Distribution

Reimbursements for TY 2018 were distributed as follows:

Reimbursement Category	Reimbursement Amount	Percent Of Total
Essential Services	$53,198,599.09	27.3%
School Related Losses	$85,065,278.47	43.6%
Small Taxpayer Exemption Loss	$25,340,257.93	13.0%
TIFA Losses	$31,392,409.01	16.1%
Total Reimbursement	**$194,996,544.50**	

This represents 45.3% of the use tax levy for TY 2018 ($430.8 million).

Reimbursements up to 100% of Loss

All remaining losses are reimbursed based on each municipality's share of its qualified loss relative to the total qualified loss for the state as a whole.

These include:

- Non-essential services levied by cities, villages, townships, and counties (both debt and operating losses)
- Community colleges (both debt and operating losses)
- Libraries (both debt and operating losses)
- Other authorities (recreation, transit, sewer and water, etc.)

These municipalities are not guaranteed 100% replacement for qualified losses if the remaining funding is insufficient to hold them harmless. In that event, payments would be prorated.

For TY 2018, $13.6 million was also disbursed to partially fund fire protection grants.

Reimbursements in Excess of 100%

In the event funding remains after the "non-essential" millages have been reimbursed up to 100%, the remaining funding is distributed in the same manner as the reimbursements up to 100%.

Cities, villages, townships, counties, and community colleges are eligible.

Libraries and authorities are not eligible (unless the library doesn't levy its own millage).

Reimbursements by Municipality Type (TY 2018)

Municipality Type	Essential Services	Small Taxpayer Exemption Loss	Reimbursement up to 100%	Reimbursement Above 100%	Total
Counties	$14,426,995.92	$5,422,943.36	$24,684,834.39	$35,676,072.09	$80,210,845.76
Cities	$33,896,945.97	$12,071,044.43	$40,742,829.49	$58,884,091.64	$145,594,911.53
Villages	$732,878.87	$978,018.73	$1,461,317.28	$2,111,987.50	$5,284,202.38
Townships	$3,814,626.08	$3,470,351.65	$3,706,641.94	$5,357,071.50	$16,348,691.17
Community Colleges	$0.0	$155,9687.73	$11,093,992.26	$16,033,733.94	$28,687,413.93
Libraries	$0.0	$1,280,318.22	$3,745,022.15	$0.0	$5,025,340.37
Authorities	$327,152.25	$557,893.81	$4,556,332.17	$0.0	$5,441,378.23
Total Reimbursement	**$53,198,599.09**	**$25,340,257.93**	**$89,990,969.68**	**$118,062,956.67**	**$286,592,783.37**

Upcoming Changes

Beginning in TY 2019, 100% guaranteed reimbursements will also include full funding for fire protection grants (about $27 million) along with $10 million for county health departments.

This means there will be about $37 million less to distribute to those municipalities that are not guaranteed 100% reimbursements (Tier 2 and Tier 3).

Beginning in TY 2021, a portion of 100% of total qualified losses will be reimbursed based on a modified acquisition cost of exempt personal property for municipalities that are not local school districts, ISDs, or TIFAs. The allocation based on modified acquisition cost begins at 10% of total qualified losses and increases by 10% per year to a maximum of 100%.

Essential Services Assessment

The essential services levy is a specific tax imposed by the state against those taxpayers that benefit from the EMPP exemption. The levy is based on the age and acquisition cost of the eligible property.

Collections accrue to the General Fund to partially offset the loss from the use tax share levied by the LCSA.

May 2019 CREC estimates:

FY 2018-19	$107.0 million
FY 2019-20	$114.0 million
FY 2020-21	$123.1 million

Questions?

jstanse@house.mi.gov

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