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PERSONAL PROPERTY TABLES: PERIODIC REVIEW

House Bill 5110 (Substitute H-2) First Analysis (10-21-97)

Sponsor: Rep. Kirk A. Profit
Committee: Tax Policy

THE APPARENT PROBLEM:

Michigan businesses must pay property taxes on personal property, such as equipment, machinery, and furnishings, as well as real property. Personal property, like real property, is supposed to be assessed at 50 percent of true cash value. To arrive at the proper assessment on a piece of equipment, generally speaking, assessors multiply its original cost by a depreciation factor based on the equipment's age. There are a number of depreciation tables in use for this purpose. The tables are the responsibility of the State Tax Commission. As the chairman of the commission has testified, the depreciation tables have not been substantially changed since 1964. The chairman told a special House Tax Policy Subcommittee on the Personal Property Tax this past spring that whatever appraisal study or methodology was used to create the tables has been lost or forgotten. (There are some exceptions, with tables for food equipment, oil drilling equipment, gas pipelines, computers, and surplus equipment having been revisited in recent years.) Business groups complain that the result is the widespread over-assessment of personal property. This leads inevitably to property tax appeals. Business interests argue -- and there is widespread agreement on this point -- that the depreciation tables need to be comprehensively revised and then reviewed regularly.

The revision and review of the depreciation tables was one of the recommendations emerging from the special House subcommittee, and the current fiscal year budget contains a \$600,000 appropriations for the State Tax Commission to carry out its initial review. Legislation has been introduced to require the commission to periodically review the depreciation tables.

THE CONTENT OF THE BILL:

The bill would amend the General Property Tax Act (MCL 211.10e) to require the state tax commission, not later than December 31, 1998 and every three years thereafter, to review the personal property depreciation tables set forth in the official assessor's manual and, if necessary, revise the tables to accurately reflect the market value of the personal property to be depreciated.

FISCAL IMPLICATIONS:

The House Fiscal Agency reports that the State Tax Commission is currently conducting a \$600,000 study of the property tax depreciation tables, which is scheduled to be completed July 31, 1998. The cost of periodic reviews has not yet been determined. (Fiscal Note dated 10-13-97)

ARGUMENTS:

For:

The personal property tax depreciation tables have not been significantly revised for over 30 years. Tax fairness demands that these tables be revised and regularly reviewed. Otherwise, personal property tax assessments are likely to be inflated. The substitute strikes a middle ground between an annual review of the tables (which business advocates) and a 5-year review (preferred by state and local tax officials).

Response:

Business representatives have in the past proposed that the bill contain penalties for the Department of Treasury if the tables are not regularly adjusted and that the tables be considered invalid if not reviewed. This kind of provision becomes more relevant the longer the permitted intervals between reviews.

Rebuttal:

Sanctions are not a good idea. In particular, local units of government should not be penalized for inaction by the State Tax Commission; they should not be faced with revenue losses or tax challenges because state officials have not met their responsibilities.

POSITIONS:

The Department of Treasury testified in support of the periodic review of depreciation tables. (10-15-97)

The Michigan Chamber of Commerce testified in support of the bill. (10-15-97)

The Michigan Municipal League has indicated its support for the concept of the bill. (10-15-97)

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The National Federation of Independent Business has indicated support for the bill. (10-15-97)

Analyst: C. Couch

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.