

Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

SFA



BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 1054 (as enrolled)
Sponsor: Senator Bill Bullard, Jr.
Senate Committee: Finance
House Committee: Tax Policy

PUBLIC ACT 537 of 1998

Date Completed: 2-4-99

RATIONALE

The General Property Tax Act provides that all tangible personal property, with certain exceptions, must be assessed to the owner, in the local unit in which the property is located on tax day (December 31). Certain "qualified personal property" is taxable to the user of the property in the local unit in which the property is located; however, this provision applies only to property rented on a long-term basis (at least 12 months). Some people believed that the method of taxing property rented on a short-term basis placed a burden on rental businesses.

Under the Act, a business must file an annual personal property statement, listing various information about tangible personal property it owns and uses in its business, and must list the property it offers for rent. As a rule, that rental property has been taxed in the local unit in which the business is located; however, if an item of rental property is located in another local unit on tax day, that local unit could assess the property and send the owner a tax bill. Reportedly, some owners of rental businesses found that they had been assessed twice for the same property, that is, once by the local unit in which the business was located and once by the local unit in which the property was located. It was suggested that the Act be revised to require that certain rental property, under certain conditions, be assessed to the owner at the owner's location.

CONTENT

The bill amended the General Property Tax Act to specify that certain daily rental property must be assessed to the owner at the location of the rental business; and to continue the current tax treatment of certain qualified personal property that is obtained for use or possession for a noncancellable term of 12 months or more.

Specifically, the bill provides that "daily rental property" must be assessed to the owner at the location of the rental business, and is not assessable at its location on tax day, if all the following conditions are met:

- The location of the rental business is in Michigan and the daily rental property is located in Michigan on tax day.
- The daily rental property is permanently labeled with the name of the owner and either the business address or current telephone number of the owner, with an indication that the property is daily rental property. The owner also must affix a unique identifying number to the daily rental property. If the daily rental property consists of multiple small items that are part of a matched set or if it is impractical to label the daily rental property, the required statement and identifying number may be placed on the daily rental property's container used to store the property when not in use.
- Before February 21 each year, the owner provides the assessor of the city or township where the rental business is located, with an itemized listing of the owner's daily rental property, as of tax day. The listing must describe the daily rental property by manufacturer, make, and model. The owner also must give the assessor written authorization to provide a copy of this information to the assessor of any other city or township in which the daily rental property may have been physically located on tax day.
- If the owner of daily rental property is required to provide a written statement pursuant to the Act to any local tax collecting unit other than the local tax collecting unit in which the daily rental property is assessable, the written statement indicates the jurisdiction in which its daily rental property is being reported.

The owner's reporting of daily rental property is subject to audit by any assessment jurisdiction in which the property is located on tax day; the local tax collecting unit where the rental business is located; the county equalization department of a county in which the property is located on tax day or where the rental business is located; and the State Tax Commission.

The bill defines "daily rental property" as tangible personal property that is exclusively offered on an hourly, daily, weekly, or monthly basis for a rental term of six months or less pursuant to a written agreement and had an acquisition cost when new of \$10,000 or less, including freight and sales tax. In determining whether a rental term extends beyond six months, the rental term must be computed by adding all permitted or required extensions of the rental term set forth in the written agreement for the property. Daily rental property does not include tangible personal property rented in conjunction with a service contract that extends beyond 90 days.

An owner's tangible personal property that is not assessable as provided in the bill is assessable as all other personal property under the Act.

Currently, qualified personal property made available by a qualified business for use by another party is taxable to the user of the property instead of the qualified business, as provided in the Act (which requires, among several conditions, a written agreement between the two parties). Previously, this provision applied to personal property assessments made after 1994 and before 2000. The bill eliminated the dates, meaning that the provision will be used for assessments in 2000 and beyond.

MCL 211.8a et al.

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

When a rental business rents an item, apparently it has no way of knowing, and cannot control, where the property will be used. That is, a rental company in a local unit has no way of preventing the renter from using the property in another local unit. If another local unit finds that such property is located in its jurisdiction on tax day, it

can send a tax bill to the owner of the property. Meanwhile, the owner by law has to file an annual personal property tax statement, which is used to assess the property by the local unit in which the owner is located. Reportedly, this resulted in situations in which the owner of rental property owed personal property tax to both local units, for the same item of property. Supposedly, the owner could get a refund of the tax paid in one unit by showing the other unit that the tax was paid, but only after filing an amended return, which often requires the business to pay its tax accountant for the effort. Further, some rental businesses that are located near multiple local units may receive tax bills from several of them, resulting in a paperwork burden and great expense. The bill corrects this situation by requiring payment of the tax once, in the local unit in which the business is located, if the conditions specified in the bill are met.

Legislative Analyst: G. Towne

FISCAL IMPACT

The bill will have no fiscal impact on State government. The bill will increase property tax collections for local units in which the daily rental personal property is owned, and will reduce property tax collections for local units in which the daily rental personal property is located.

Fiscal Analyst: R. Ross

A9798\S1054ea

This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.