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BILL ANALYSIS

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Senate Bill 811 (Substitute S-4 as enrolled)
Sponsor: Senator Nancy Cassis
Committee: Commerce and Labor

CONTENT

The bill would amend the General Property Tax Act to replace the definition of "special tools", and define "standard tool", for the purpose of a personal property tax exemption.

Currently, all special tools are exempt from the personal property tax unless the value of a special tool is included in the valuation of inventory produced for sale. "Special tools" means those manufacturing requisites, such as dies, jigs, fixtures, molds, patterns, gauges, or other tools, as defined by the State Tax Commission, that are held for use and not for sale in the ordinary course of business.

The bill would delete the current definition and define "special tool" as "a finished or unfinished device such as a die, jig, fixture, mold, pattern, special gauge, or similar device, that is used, or is being prepared for use, to manufacture a product and that cannot be used to manufacture another product without substantial modification of the device". "Product" would mean an item of tangible property that was directly created or produced through the manufacturing process; a product could be a part, a special tool, a component, or a sub-assembly; or completed goods that were available for wholesale or retail trade.

The bill specifies that the length of the economic life of the product manufactured could not be considered in a determination of whether a device used to manufacture the product was a special tool. Special tools would not include a device that differed in character from dies, jigs, fixtures, molds, patterns, or special gauges; standard tools; or machinery or equipment, even if customized, and even if used in conjunction with special tools.

A person claiming an exemption for a special tool would have to include in the personal property tax statement (required under Section 19 of the Act) any special tool for which an exemption was claimed, indicating that it was exempt form taxation. (Under Section 19, each assessing officer must require any person who has possession of personal property to file a statement listing that property.)

Under the bill, "standard tool" would mean a die, jig, fixture, mold, pattern, gauge, or other tool that was not a special tool. The term would not include machinery or equipment, even if customized, and even if used in conjunction with special tools or standard tools. The bill provides that for purposes of the personal property tax statement, the true cash value of a standard tool would be the net book value of that tool as of December 31 in each tax year, as determined using generally accepted accounting principles in a manner consistent with the established depreciation method used by the person submitting the statement. The net book value of a standard tool for Federal income tax purposes would not be the presumptive true cash value of that tool.

MCL 211.9b & 211.27 Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The bill would have an unknown and likely negligible impact on property tax revenues for both the State and local units. The portions of the bill regarding special tools would affect the impact on future revenues from recent court decisions. However, current revenues have not yet reflected those court decisions. The portions of the bill regarding using net book value to assess taxable standard tools, largely replicate language currently used in the procedures for assessing property, but without a sentence indicating that assessable tooling should not be assessed at an amount less than the expected remaining useful life plus salvage value, if applicable under the depreciation method used by the taxpayer. If the bill were interpreted to prohibit such minimum values, then the bill would reduce State and local property tax revenues by possibly significant amounts. The bill would not prohibit the minimum value from remaining as part of the guidelines and thus would likely have little effect on revenues.

Date Completed: 12-11-03 Fiscal Analyst: David Zin