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Senate Bill 811 (as introduced 10-30-03)
Sponsor: Senator Nancy Cassis
Committee: Commerce and Labor

Date Completed: 12-10-03

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 that is used or is being prepared for use to produce a product or model for which that device is designed, and that is of such a specialized nature that the device's utility will cease to the owner or user if the product or model is discontinued". The term would include, but not be limited to, a die, jig, fixture, mold, pattern, or special gauge. Whether or not a device was a special tool would have to be determined without regard to its actual economic life or useful life or the product's or model's life in the marketplace. "Utility will cease" would mean that if a product or model were discontinued, a special tool could not be used without modification to produce a different product or model, notwithstanding any benefit from incidental use, such as the production of replacement parts for the original product or model.

"Special tool" would not include a standard tool. "Standard tool" would mean a die, jig, fixture, mold, pattern, gauge, or other tool that was not a special tool. The bill provides that for purposes of the personal property tax statement (required under Section 19 of the Act), 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. (Under Section 19, each assessing officer must require any person who has possession of personal property to file a statement listing that property, by February 20 each year.)

MCL 211.9b & 211.27

Legislative Analyst: George Towne

FISCAL IMPACT

The bill would reduce property tax revenues by a unknown and potentially significant amount by increasing the amount of property that may qualify for the property tax exemption for special tools. While most of the property that currently qualifies for the exemption is in tool and die industries, the new definitions could include many types of property in many sectors.

(Current law states that if property has value for the manufacturing of replacements parts, then the property has utility, while the bill would eliminate that consideration.) Furthermore, under the bill, if any modification to the property were necessary for a new model or product, then a determination could be made that utility had ceased, allowing the property to be classified as a special tool. The tool and die industry alone may have as much as \$2.6 billion in property subject to taxation, although a significant portion of that property may already be exempt under current law. If the bill's provisions expanded the amount of property exempt from taxation in that sector by 75%, the revenue loss from the tool and die industry alone could be \$32.9 million. Any loss in property tax revenue would decrease revenue to the SAF and local units of government, as well as increase expenditures from the SAF.

Fiscal Analyst: David Zin