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BILL ANALYSIS

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Senate Bill 1242 (as introduced 5-13-04)
Sponsor: Senator Laura M. Toy
Committee: Commerce and Labor

Date Completed: 6-8-04

CONTENT

The bill would amend the plant rehabilitation and industrial development Act (commonly referred to as P.A. 198) to allow tax abatements under the Act for certain property whose primary purpose was the creation or modification of "qualified commercial property".

The Act authorizes local units of government to provide tax abatements for the development or redevelopment of "industrial property". Under the Act, industrial property includes land improvements, buildings, structures, and other real property, and machinery, equipment, furniture, and fixtures or any part or accessory, "the primary purpose and use of which is the engaging in a high-technology activity, the manufacture of goods or materials, creation or synthesis of biodiesel fuel, or the processing of goods and materials by physical or chemical change". The bill would add "the creation or modification of qualified commercial property" to the primary purposes of property that may qualify as industrial property.

"Qualified commercial property" would mean "commercial housing property" or commercial property in which the building or structure was greater than 12,000 square feet.

"Commercial property" would mean that term as defined in the Obsolete Property Rehabilitation Act, i.e., land improvements classified by law for general ad valorem tax purposes as real property, including real property assessable as personal property, whose primary purpose and use are the operation of a commercial business enterprise. The term includes facilities related to a commercial business enterprise under the same ownership at that location, including office, engineering, research and development, warehousing, parts distribution, retail sales, and other commercial activities as well as a building or group of contiguous buildings previously used for industrial purposes that will be converted to the operation of a commercial business enterprise or a multiple-unit dwelling or a dwelling unit in a multiple-purpose structure, used for residential purposes.

"Commercial housing property" would mean that term as defined in the Obsolete Property Rehabilitation Act, i.e., that portion of real property not owner-occupied that is classified as residential real property under the General Property Tax Act, is a multiple-unit dwelling, or is a dwelling unit in a multiple-purpose structure, used for residential purposes. The term includes a building or group of contiguous buildings previously used for industrial purposes, that will be converted to a multiple-unit dwelling or dwelling unit in a multiple-purpose structure, used for residential purposes.

MCL 207.552

BACKGROUND

Under P.A. 198, local units of government may establish plant rehabilitation districts, for the renovation of industrial property, and industrial development districts, for new development of industrial property.

After a district is established, the owner or lessee of an industrial property facility within the district may apply to the local unit for an industrial facilities exemption certificate. The owner, lessee, occupant, user, or person in possession of a facility or portion of a facility for which a certificate is in effect is exempt from ad valorem real and personal property taxes. The exemption certificate does not apply to the land on which a facility is located or the facility's inventory.

A specific tax, known as the industrial facility tax, is levied under P.A. 198 upon every owner of a speculative building, a new facility, or a replacement facility (except a facility located in a renaissance zone) to whom an industrial facilities exemption certificate is issued. The industrial facility tax is calculated in the same manner and at the same rate as that used by the local tax collecting unit to calculate ad valorem taxes collected under the General Property Tax Act. Under the specific tax, however, the tax on a rehabilitation project is determined according to the assessed value of the plant before improvements, resulting in a 100% exemption from the property tax on the improvements. The tax on a new facility is based on half of the millage rate, resulting in a 50% reduction in the property taxes on the new construction, machinery, or equipment.

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The bill would decrease State School Aid Fund and local property tax revenue by an unknown amount, depending on the number of certificates issued under the conditions proposed in the bill and the specific characteristics of the property for which certificates were issued. The bill would allow an exemption for property with the primary purpose of creating or modifying qualified commercial property, but would not allow an exemption for the created or modified property. The extent of the property, machinery, equipment and buildings present in Michigan and primarily devoted to the production or modification of qualified commercial property, is unknown.

The bill also would increase School Aid Fund expenditures by an unknown amount. Any reduction in school property taxes under the bill would require greater School Aid Fund expenditures to bring affected school districts up to the guaranteed level of per pupil revenue.

This analysis is preliminary and will be revised as new information becomes available.

Fiscal Analyst: David Zin

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