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

BILL ANALYSIS

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

House Bill 4234 (Substitute H-4 as reported without amendment)
Sponsor: Representative Glenn Steil, Jr.
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 7-28-04

RATIONALE

Under the General Property Tax Act, Michigan businesses are taxed on both real and personal property. Some of the State's business leaders are concerned that the burden of paying the personal property tax could lead to small businesses considering locating in Michigan to set up shop in other states where the tax either is not collected or is assessed at a lower rate. It is feared that such moves could cost the State future jobs and revenue as those businesses grow into larger, more profitable operations. Some people believe that Michigan should encourage small businesses to remain or locate in the State by exempting businesses with less than $7,500 in personal property from being taxed on that property.

CONTENT

The bill would amend the General Property Tax Act to exempt from taxation the personal property of a Michigan business and any affiliate of the business, if the value of the property totaled less than $7,500. The bill would require the State to reimburse local taxing units and the School Aid Fund for tax revenue lost due to the exemption. The exemption would apply for taxes levied after December 31, 2004.

Specifically, if the aggregate State equalized valuation of the personal property identified in the statement required under Section 19 of the Act that was submitted by a person incorporated or doing business in Michigan, together with the personal property identified in any statement required under Section 19 that was filed by any affiliate of that person, totaled less than $7,500, the personal property identified in the statement filed by the person and the personal property identified in the statement filed by an affiliate of the person would be exempt from the collection of taxes under the Act.

(Under Section 19, a supervisor or other assessing officer must ascertain the taxable property in his or her assessing district and the person to whom it should be assessed. The supervisor or other assessing officer must require any person whom he or she believes has personal property in the person's possession to make an annual statement of all personal property, whether owned by that person or held for the use of another.)

Under the bill, the statement would have to be submitted whether or not the aggregate taxable value of the personal property identified in the statement was less than $7,500. If the aggregate taxable value of the personal property were less than $7,500, however, the assessor of the local tax collecting unit in which the personal property was located could elect not to send the statement for three years. If an assessor chose not to send the statement, a personal property statement would not have to be filed.

The State would have to reimburse each local taxing unit that levied an ad valorem property tax in the local tax collecting unit in which any property exempt under the bill was located, for any tax revenue lost as a result of the exemption.

The State also would have to reimburse the School Aid Fund for any tax revenue lost as a result of the exemption. This reimbursement would have to be made from the General Fund.

Proposed MCL 211.9j

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

Michigan has been in a prolonged economic slump and one of the best ways to improve the economy is by encouraging new businesses to start and succeed in the State. If businesses with less than $7,500 in personal property were given an exemption, it is estimated that the average qualifying business would save about $375 annually on its tax bill, an amount that could make a big difference to a struggling home-based business. The bill also would make it easier for local tax assessors to collect the tax by eliminating the need for them to determine the personal property tax obligation of those small businesses, whose property often consists of little more than a home computer. In such cases, the costs of collecting the tax are sometimes greater than the amount collected.

Opposing Argument

While the bill states that schools and local governments would be reimbursed for their lost personal property tax revenue, there is no guarantee that the funds would be appropriated. During the current State budget crisis, appropriations to local governments have been reduced, and funding to cover the lost personal property tax revenue also could be reduced or not provided. While the potential lost revenue does not appear to be great on a per-business basis, several municipalities could lose hundreds of thousands of dollars in revenue should the exemption be implemented and the full cost of the exemption not be appropriated.

Opposing Argument

The bill is written in such a way that a large business with assets in a number of locations, such as a utility, could divide up its assets so that less than $7,500 of its personal property was located in any one taxing unit and, thus, avoid the tax.

Legislative Analyst: J.P. Finet

FISCAL IMPACT

The bill would reduce State revenue by at least $23.9 million per year, based on preliminary estimates from the Michigan Department of Treasury. The bill presents some ambiguity about how taxpayers with locations in multiple jurisdictions would be treated under the exemption. Statements required under Section 19 are submitted to local assessing officers, so it is unclear if the exemption would be based upon all Section 19 reports filed with a given jurisdiction or filed statewide. Similarly, the term "affiliate" is not defined in the Act and other definitions, including those elsewhere in Michigan statute, do not appear to encompass the full range of ownership and branch structures that taxpayers may exhibit. If the language is interpreted to limit the exemption to taxpayers with less than $7,500 of personal property within the entire State, the bill would reduce revenue by approximately $23.9 million. As the result of practical difficulties with the local nature of the Section 19 statement and the definition of affiliate, the exemption could be claimed by taxpayers who have more than $7,500 of personal property in Michigan, but less than $7,500 at a branch or within a specific local unit. To the extent such claims occurred, the bill would reduce revenue by substantially more than $23.9 million, perhaps reducing revenue by $100 million or more.

The bill would require the State to reimburse both local units and the School Aid Fund for any revenue loss due to the proposed exemption. Presumably, in cases in which the bill would allow an assessor to elect not to send a personal property statement to a taxpayer, local units still could correctly identify lost revenue the State would need to reimburse.

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

Fiscal Analyst: David Zin

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