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BILL ANALYSIS

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Senate Bill 276 (as passed by the Senate)
Sponsor: Senator Roger Kahn, M.D.
Committee: Finance

Date Completed: 5-17-07

## RATIONALE

As the General Property Tax Act allows, some local tax assessing districts in distressed areas have adopted resolutions that exempt from the collection of taxes new personal property that is leased or owned by eligible businesses. Businesses that meet various criteria, including maintaining a certain number of jobs, investing capital in the State, and/or being located in blighted areas or in cities with decreasing populations, are eligible to receive an exemption. When the personal property is sold, it is no longer tax exempt and the new owner must pay taxes on the property even if the new owner continues the work and business of the original owner. Evidently, this can make it more difficult to sell a business as its costs will be considerably higher when tax on personal property is included. In order to increase the salability of certain businesses and continue the positive effects that they have on distressed areas, some people have suggested that tax exemptions for personal property of eligible businesses be transferable to new owners of that property when it is sold.

## CONTENT

**The bill would amend the General Property Tax Act to maintain the tax-exempt status of certain new personal property sold or leased by an existing eligible business to an acquiring eligible business; and extend the exemption to any new personal property leased or purchased by that business.**

The Act allows the governing body of an eligible local tax assessing district to adopt a resolution exempting from the collection of taxes under the Act all new personal property leased or owned by an eligible business located in one or more eligible districts designated in the resolution. The exemption is effective on the December 31 immediately following the adoption of the resolution and continues in effect for a period specified in the resolution. The State Tax Commission must approve or disapprove the resolution.

Under the bill, if an existing eligible business sold or leased to another eligible business new personal property exempt from personal property tax under a resolution adopted by an eligible local tax assessing district, the exemption granted to the existing eligible business would continue in effect for the period specified in the resolution for the new personal property purchased or leased from the existing eligible business by the acquiring eligible business and for any new personal property purchased or leased by that business. After December 31, 2007, an exemption would continue in effect for an acquiring eligible business only if approved in a resolution adopted by the governing body of an eligible local assessing district.

The bill would define "existing eligible business" as an eligible business identified in the resolution adopted by an eligible local tax assessing district for which an exemption had been granted. "Acquiring eligible business" would mean an eligible business that purchased or leased assets of an existing eligible business, including the purchase or lease of new personal property exempt from property taxes under this section of the Act, and that would conduct business operations similar to those of the existing eligible business at the location of that business within the eligible district.

The Act defines "eligible business" as a business engaged primarily in manufacturing, mining, research and development, wholesale trade, or office operations. The definition expressly excludes a casino, retail establishment, professional sports stadium, any portion of an eligible business used exclusively for retail sales, and all property associated or affiliated with the operation of a casino.

An "eligible district" may be one or more of the following:

-- An industrial development district as defined in Public Act 198 of 1974.
-- A renaissance zone as defined in the Michigan Renaissance Zone Act.
-- An enterprise zone as defined in the Enterprise Zone Act.
-- A brownfield redevelopment zone as designated under the Brownfield Redevelopment Financing Act.
-- An empowerment zone designated under the Internal Revenue Code.
-- An authority district or a development area as defined in the Tax Increment Finance Authority Act.
-- An authority district as defined in the Local Development Financing Act.
-- A downtown district or a development area as defined in Public Act 197 of 1975.

An "eligible local assessing district" is a city, village, or township that contains an eligible distressed area. "Eligible distressed area" means that term as defined in the State Housing Development Authority Act (which refers to an area in a city with a population under 10,000 that has been designated "blighted"; a municipality that shows a negative population change from 1970, and a poverty rate and unemployment rate above the statewide average; or an area certified as a neighborhood enterprise zone). "Eligible distressed area" also includes an area that contains an eligible business as described in Section 8(5)(b)(ii) of the Michigan Economic Growth Authority Act (a facility that maintains 150 retained jobs at the facility, maintains 1,000 or more full-time jobs in Michigan, and makes new capital investment in the State).

"New personal property" is personal property that was not previously subject to taxation under the General Property Tax Act and that is placed in an eligible district after a resolution exempting new personal property is approved by the eligible local assessing district. "New personal property" does not include buildings on leased land or, during the tenancy of a lessee, personal property or improvements to real property held under certain leaseholder arrangements described in the Act.

MCL 211.9f

**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**

In 1999, Buena Vista Township and the City of Saginaw passed resolutions under the Act to provide tax exemptions for personal property purchased by Delphi Chassis and Delphi Steering for a period of 20 years. In 2006, as part of its postbankruptcy plan, Delphi Corporation announced its decision to sell Delphi Steering and Delphi Chassis. Soon after, the City of Saginaw and Buena Vista Township passed resolutions stating their willingness to transfer existing abatements and incentives to any potential new owner of the businesses and facilities. Because no legal method of transferring the exemptions exists, however, the municipalities have been unable to do so. Reportedly, this has made it difficult for the Delphi Corporation to sell Delphi Steering and Delphi Chassis.

The bill would address this situation and others like it by allowing governing bodies of eligible local tax assessing districts to extend tax exemptions that encourage economic stability or growth in their districts. The bill would help improve a community's economy by providing an incentive for businesses to remain in the community even under new ownership. Because a transfer of a tax exemption would have to be approved by a governing body, the bill also would allow each community to decide what would be in its best interest.

Legislative Analyst: Craig Laurie

**FISCAL IMPACT**

The bill would have an unknown and likely negligible effect on local unit revenue and an unknown and likely negligible effect on State expenditures. To the extent that the bill would not change property sales or acquisition, it would not reduce local unit revenue. Any reduction in school operating mills would be offset by increased School Aid Fund expenditures in order to maintain per-pupil funding guarantees. To the extent that property that would not be sold under current law was sold under the bill (and/or some taxpayers purchased the used property when they otherwise would have purchased new property), the bill would have an indeterminate impact upon local unit revenue.

Fiscal Analyst: David Zin

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