

## MODIFY EXEMPTION OF ALTERNATIVE ENERGY PERSONAL PROPERTY FROM PROPERTY TAXES

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**House Bills 4068 and 4069 as introduced**

**Sponsor: Rep. Bronna Kahle**

**Committee: Tax Policy**

**Complete to 4-15-19**

### SUMMARY:

Together, House Bills 4068 and 4069 would revise the tax treatment of alternative energy systems and generally provide for tax exemptions. House Bill 4068 would address the commercial or industrial application of these systems, and House Bill 4069 would address the residential application.

**House Bill 4068** would amend the General Property Tax Act. Currently under the act, there is a personal property tax exemption for “alternative energy personal property,” but the exemption applies only to taxes levied after December 31, 2002, and before January 1, 2013. The Michigan Next Energy Authority certified the personal property as eligible for the exemption. Both local school districts and local tax collecting units could adopt resolutions disallowing exemptions from certain taxes.

The bill would eliminate the certification and resolution process. The personal property tax exemption would apply to the type of alternative energy personal property that is described as an *alternative energy system*, for taxes levied after the effective date of the bill, regardless of the ownership of the alternative energy personal property.

*Alternative energy system* is defined in the Michigan Next Energy Authority Act and means the small-scale generation or release of energy from one of thirteen energy systems, alone or in combination, including photovoltaic and wind energy systems. (MCL 207.822)

The exemption would apply if all of the following conditions were met:

- The alternative energy personal property had a generating capacity of not more than 150 kilowatts and was used solely to offset all or a portion of the commercial or industrial energy usage of the person upon whose real property the alternative energy personal property is located.
- If installed after the effective date of the bill, the alternative energy personal property had a true cash value that, when combined with the true cash value exempt under section 9o as eligible personal property of the person claiming the alternative energy personal property exemption or a related entity, equaled less than \$80,000.

MCL 211.9i

**House Bill 4069** would also amend the General Property Tax Act. Currently under the act, in determining the true cash value of residential property for assessment purposes, assessors cannot consider the increase in true cash value resulting from expenditures for normal repairs, replacement, and maintenance, until the property is sold. The repairs are considered normal maintenance if they are not part of a structural addition or completion. The increase in value attributable to those activities that is known to the assessor is excluded from true cash value but is indicated on the assessment roll.

The act enumerates a list of such maintenance and repair activities.<sup>1</sup> Examples include inside or outside painting; repairs; adding gutters or downspouts; and replacing plumbing, furnaces, or hot water heaters.

The bill would add the following to the list of normal maintenance activities: installing, replacing, or repairing an *alternative energy system* with a generating capacity of not more than 150 kilowatts, the annual energy output of which does not exceed the annual energy consumption measured by the electrical meter on the system to which it is connected. This would apply regardless of the ownership of the system.

*Alternative energy system* would have the same definition as in HB 4068.

The bill would also amend a section of the General Property Tax Act that defines the term “additions” for purposes of determining a property’s taxable value under the act and sections 3 and 31 of Article IX of the State Constitution.

Currently under the act, “additions” includes “new construction,” which is property not in existence on the immediately preceding tax day and not replacement construction, and which includes the physical addition of equipment or furnishings, except for normal maintenance activities as described above.

The bill would amend this provision to include the installation, replacement, or repair of an alternative energy system among the normal maintenance activities that are excluded from the definitions of “additions” and “new construction” for purposes of determining a property’s taxable value.

MCL 211.27 and 211.34d

## **FISCAL IMPACT:**

### House Bill 4068

To the extent that the personal property is exempt under current law, the bill would have no fiscal impact on state or local governments. According to the Department of Treasury, the personal property covered by the bill is currently subject to exemption through the small taxpayer exemption included in the personal property tax reforms initiated in 2012. If, due to the provisions contained in the bill, newly eligible personal property were deemed

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<sup>1</sup> This section of the law is commonly referred to as the Mathieu-Gast Home Improvement Act, or simply “Mathieu-Gast.” For more, see [https://www.michigan.gov/documents/taxes/Bulletin\\_7\\_of\\_2014\\_Mathieu\\_Gast\\_458960\\_7.pdf](https://www.michigan.gov/documents/taxes/Bulletin_7_of_2014_Mathieu_Gast_458960_7.pdf)

exempt, the bill would result in reduced revenues for local units of government. Any revenue impact would depend on the taxable value of the personal property and the millage rate of the local unit of government. Because solar panels and wind turbines are generally classified as industrial personal property and already exempt from the 6-mill state education tax and the 18-mill non-homestead levy earmarked for local schools, the majority of any revenue reduction would be absorbed by local governments.

#### House Bill 4069

The statewide taxable value of solar panel systems with a generating capacity of not more than 150 kilowatts is unknown; therefore, the revenue impact for state and local governments is difficult to determine.

To the extent that solar panels were previously classified as residential real property and subject to state and local taxation, the bill would reduce revenues for state and local governments. The provisions of the bill would reduce revenue from the 6-mill state education tax and, in some instances, the 18-mill non-homestead levy earmarked for local schools. Local governments would realize revenue losses in an amount equal to the taxable value of the exempted property multiplied by the local unit's millage rate.

However, in most instances, prior to the February 13, 2018, State Tax Commission guidance that classified solar panels as a component of residential real property if they are located on a parcel of residential real property, solar panels were classified as industrial personal property and considered exempt from the 6-mill state education tax and the 18-mill non-homestead levy earmarked for local schools. Despite the State Tax Commission's reclassification of residential solar panels as residential real property, the bill would continue to exempt solar panels from these two tax levies by excluding solar panels from the calculation of the true cash value of residential real property.

The classification of solar panels as industrial personal property allowed individuals to claim the small taxpayer exemption under the personal property tax phase-out beginning in 2014. To the extent that an owner of residential real property claimed the small taxpayer exemption for solar panels, a local unit of government would realize no revenue impact. Conversely, if the individual did not claim the small taxpayer exemption, the bill would reduce local revenues by an amount equal to the taxable value of the exempted property multiplied by the local unit's millage rate, due to the exclusion of solar panels in determining the true cash value of residential real property. It should be noted that, upon sale of a parcel of residential real property, the value of the solar panels could be used in calculating the true cash value and therefore be considered subject to the 6-mill state education tax, the 18-mill non-homestead levy earmarked for local schools, and any local millage.

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