

**SENATE FISCAL AGENCY
MEMORANDUM**



DATE: September 14, 2011
TO: Members of the Senate
FROM: David Zin, Chief Economist
RE: Personal Property Taxes - REVISED

Property taxes on personal property have long been a source of controversy for both taxpayers and tax assessing jurisdictions. In the current legislative session, Senate Bill 34 and Senate Bill 142 have been introduced to eliminate or reduce taxes levied on personal property. In an effort to help inform the debate on how to address this issue, the Senate Fiscal Agency (SFA) will release an issue paper within the next week providing substantial detail on the impact of personal property taxes on taxing jurisdictions. This memo summarizes some of the information to be presented in that analysis.

Background on Personal Property Taxation

Personal property is generally property that is not affixed to a structure, such as machinery, equipment, and furniture, although Michigan statute also includes interests in real property and other types of property, such as certain tombs and vaults or wind energy systems. A wide variety of personal property is exempt from property taxes, due to either the nature of the property owner, or the type of property, or a combination of both factors. Among the varieties of personal property exempt under Michigan law are personal property owned and used by a householder and household furnishings; personal property owned by banks and charitable, educational, and scientific institutions incorporated under Michigan law; and types of property such as methane digesters, fire engines and fire extinguishing equipment owned by a fire company, water conditioning systems used for residential dwellings, and certain working tools owned by a mechanic.

Personal property is taxed based on its taxable value, like real property, although the value of personal property generally depreciates over time while the value of real property generally appreciates over time. For personal property, the value is generally determined by acquisition cost less depreciation, which is determined using depreciation multipliers. The State Tax Commission issues multiplier tables for use in assessing the value of personal property. As a result of the differences in the way values change over time, personal property represents a declining share of total taxable value. Personal property comprised 12.7% of total taxable value in Michigan in 1997, but only 8.5% in 2011.

Like real property, personal property is categorized based on its use, and the categories for personal property are agricultural, commercial, industrial, residential, and utility. While some categories, such as agricultural and residential, are completely exempt from taxation, other categories are exempt only from certain levies. For example, industrial personal property is exempt from the State Education Tax and from the 18 mills that are levied by local school districts for operating purposes, and commercial personal property is exempt from 12 of the 18 mills levied by local school districts for operating purposes.

Absent any special exemption or treatment, such as the levies applied to industrial personal property or the exemption of agricultural personal property, personal property is taxed the same as real property. As a result, any taxing jurisdiction authorized to levy property taxes receives property tax revenue from personal property. Local school districts, intermediate school districts (ISDs), counties, cities, villages, townships, community colleges, and authorities such as transit authorities, library authorities, and police and fire authorities, all receive revenue from property taxes levied on personal property. In addition,



these levies are subject to tax increment captures, so entities such as downtown development authorities (DDAs) and tax increment financing authorities (TIFAs) also receive revenue from personal property taxes. The State also receives tax revenue from personal property taxes, through the State Education Tax (the portion levied on commercial and utility personal property), through property taxes applied to State-assessed property, such as the taxes on telephone and telegraph companies, and through property that is subject to the Industrial Facilities Tax.

Under the Michigan Business Tax (MBT), taxpayers were eligible for credit equal to a portion of property taxes levied on industrial personal property and utility personal property. A similar credit was not adopted as part of the Michigan Corporate Income Tax scheduled to take effect January 1, 2012, and there is no similar credit for businesses such as sole proprietorships, partnerships, and S-corporations that must pay taxes on their business activity under the Michigan Individual Income Tax.

Magnitude and Distribution of Personal Property Taxes

As shown in [Table 1](#), based on 2010 taxable values and tax rates, the SFA estimates personal property taxes totaled \$1.3 billion in calendar year 2010, and were offset by \$145.7 million in MBT credits. [Table 2](#) provides a breakdown of personal property taxes, by taxing authority. The forthcoming issue paper will provide a similar breakdown for each individual school district, ISD, community college, county, city, and township. Taxable values for utility personal property are available only for counties, cities, and townships. As a result, the detail for utility personal property in [Table 2](#) understates the true totals, because only approximately \$2.1 billion of the \$7.7 billion in utility personal property taxable value can be accurately allocated to units such as school districts, ISDs, and community colleges. Because utility rates are generally set to guarantee a return to the utility, the tax burden on utility personal property is included in the rates charged to customers.

Table 1

Estimated Calendar Year (CY) 2010 Personal Property Taxes	
Personal Property Taxes Paid	Estimated CY 2010 Personal Property Taxes (millions)
Commercial.....	\$416.0
Industrial Ad Valorem	334.8
Industrial Facilities Taxes (IFT)	94.0
Industrial Subtotal	428.8
MBT Credit (35%)	(138.6)
Net Industrial Personal Property Taxes.....	\$290.2
Utility (Locally Assessed).....	\$392.1
State Utility Property Tax.....	\$52.7
MBT Credit (13.5%)	(7.1)
Net State Utility Property Tax	\$45.6
Total Personal Property Tax Before Credits.....	\$1,289.6
Total Personal Property Tax After Credits	\$1,143.9
Note: Omits personal property taxes attributable to village levies, ISD enhancement mills, and school district recreation mills.	

Table 2

Estimated Distribution of CY 2010 Personal Property Taxes (Dollars in Millions)	
Type of Property and Levy	Estimated CY 2010 Personal Property Taxes
Commercial	
State Education Tax.....	\$57.0
Local School Operating.....	\$70.6
School Debt.....	\$48.0
ISD Operating (including Special Ed./Vocational Ed).....	\$33.2
ISD Debt.....	\$0.1
Community College Operating.....	\$17.4
Community College Debt.....	\$0.5
County/City/Township Operating.....	\$162.7
County/City/Township Debt.....	\$11.4
State Assessed/IFT.....	\$0.0
Other Local Units ¹⁾	\$15.2
Total Commercial Personal Property.....	\$416.0
Industrial	
State Education Tax.....	\$0.0
Local School Operating.....	\$9.1
School Debt.....	\$51.2
ISD Operating (including Special Ed./Vocational Ed).....	\$37.7
ISD Debt.....	\$0.2
Community College Operating.....	\$18.3
Community College Debt.....	\$0.3
County/City/Township Operating.....	\$188.5
County/City/Township Debt.....	\$14.1
State Assessed/IFT.....	\$94.0
Other Local Units ¹⁾	\$15.4
Total Industrial Personal Property.....	\$428.8
Utility	
State Education Tax.....	\$46.0
Local School Operating ²⁾	\$38.0
School Debt ²⁾	\$11.2
ISD Operating (including Special Ed./Vocational Ed) ²⁾	\$6.5
ISD Debt ²⁾	\$0.0
Community College Operating ²⁾	\$3.1
Community College Debt ²⁾	\$0.1
County/City/Township Operating.....	\$105.8
County/City/Township Debt.....	\$7.7
State Assessed/IFT.....	\$52.7
Other Local Units ¹⁾	\$1.9
Total Utility Personal Property**.....	\$444.8
All Personal Property.....	
State Education Tax.....	\$103.0
Local School Operating ²⁾	\$117.7
School Debt**.....	\$110.4
ISD Operating (including Special Ed./Vocational Ed) ²⁾	\$77.4
ISD Debt ²⁾	\$0.3
Community College Operating ²⁾	\$38.8
Community College Debt ²⁾	\$0.9
County/City/Township Operating.....	\$457.0
County/City/Township Debt.....	\$33.2
State Assessed/IFT.....	\$146.7
Other Local Units ¹⁾	\$32.5
Total All Personal Property.....	\$1,289.6
¹⁾ "Other Local Unit" includes authorities and special assessments. Levies attributable to villages, ISD enhancement mills and local school district recreation mills, are not included in the table. ²⁾ Utility personal property is available only at the county/city/township level. Except for the "Total Utility Personal Property" line, amounts shown include only those local units with a single school district within the unit's boundaries, and thus underestimate the totals for those lines. Taxes on utility personal property that were able to be allocated to these units accounted for only \$2.1 billion of the total \$7.7 billion in utility personal property taxable value statewide.	

Based on the Agency's current data, the SFA estimates that property taxes on commercial and industrial property provide approximately \$99.2 million in revenue to pay local school district debt, \$0.3 million for ISD debt, and \$25.5 million for county, city, and township debt. Property taxes on commercial and industrial personal property account for \$79.7 million of local school operating mills, and thus reduce School Aid Fund expenditures by that amount when payments are calculated to meet per-pupil funding guarantees. The School Aid Fund also receives approximately \$57.0 million in State Education Tax revenue from commercial personal property. Property taxes on commercial and industrial personal property also account for \$70.9 million in operating revenue for ISDs, \$35.7 million in operating revenue for community colleges, and \$351.2 million in operating revenue for counties, cities, and townships.

Individual local units' reliance on personal property taxes varies significantly, with smaller and more rural local units generally less reliant on personal property taxes than more developed urban areas. Among local school districts, the Memphis Community Schools district exhibits the greatest reliance on commercial personal property taxes, which account for 14.7% of its local levy for school operating purposes, while the River Rouge City Schools district exhibits the greatest reliance on industrial personal property taxes, which account for 14.7% of its local levy for school operating purposes. Commercial personal property taxes account for 11.9% of the property tax revenue the Southfield Public School District receives to pay toward debt, while industrial personal property taxes account for 42.8% of the property tax revenue the Ecorse Public School District receives to pay debt.

Among intermediate school districts, the Wayne County ISD exhibits the greatest reliance on commercial personal property taxes, which account for 3.9% of its local levy for operating purposes, while the Midland ISD exhibits the greatest reliance on industrial personal property taxes, which account for 10.4% of its local levy for operating purposes. Commercial personal property taxes account for 3.5% of the property tax revenue the Kalamazoo Valley ISD receives to pay toward debt, while industrial personal property taxes account for 6.3%.

Among community colleges, Henry Ford Community College exhibits the greatest reliance on commercial personal property taxes, which account for 4.9% of its local levy for operating purposes, while industrial personal property taxes account for 8.8%. Commercial personal property taxes account for 3.1% of the property tax revenue Mott Community College receives to pay toward debt, while industrial personal property taxes account for 8.2% of the property tax revenue the Bay De Noc Community College receives to pay debt.

Among counties, Wayne County exhibits the greatest reliance on commercial personal property taxes, which account for 4.0% of its local levy for operating purposes, while Dickinson County exhibits the greatest reliance on industrial personal property taxes, which account for 11.7% of its local levy for operating purposes. Personal property taxes, from all classes of property, account for 20.4% of property taxes levied for operating purposes in Kalamazoo County. Commercial personal property taxes account for 3.9% of the property tax revenue Saginaw County receives to pay toward debt, while industrial personal property taxes account for 42.8% of the property tax revenue Kalamazoo County receives to pay debt. Personal property taxes, from all classes of property, account for 20.4% of property taxes levied to pay debt in Kalamazoo County.

Among cities, Southfield exhibits the greatest reliance on commercial personal property taxes, which account for 11.7% of its local levy for operating purposes, while Litchfield exhibits the greatest reliance on industrial personal property taxes, which account for 45.3% of its local levy for operating purposes. Personal property taxes, from all classes of property, account for 56.8% of property taxes levied for operating purposes in River Rouge. Commercial property taxes account for more than 5.0% of local property taxes for operating purposes in 52 cities, while industrial personal property taxes account for more than 20% of local property taxes for operating purposes in 16 cities. Commercial personal property taxes account for 11.7% of the property tax revenue Southfield receives to pay toward debt, while industrial personal property taxes account for 41.1% of the property tax revenue Ecorse receives

to pay debt. Personal property taxes, from all classes of property, account for 56.8% of property taxes levied to pay debt in River Rouge. Commercial property taxes account for more than 5.0% of local property taxes to pay debt in 21 cities, while industrial personal property taxes account for more than 20.0% of local property taxes to pay debt in four cities.

Among townships, Gilmore Township in Benzie County exhibits the greatest reliance on commercial personal property taxes, which account for 28.9% of its local levy for operating purposes, while Chandler Township in Charlevoix County exhibits the greatest reliance on industrial personal property taxes, which account for 41.2% of its local levy for operating purposes. Personal property taxes, from all classes of property, account for 62.0% of property taxes levied for operating purposes in Winterfield Township in Clare County. Commercial property taxes account for more than 5.0% of local property taxes for operating purposes in 37 townships, while industrial personal property taxes account for more than 20.0% of local property taxes for operating in nine townships. Commercial personal property taxes account for 4.0% of the property tax revenue Dundee Township in Monroe County receives to pay toward debt, while industrial personal property taxes account for 26.6% of the property tax revenue Covert Township in Van Buren County receives to pay debt. Personal property taxes, from all classes of property, account for 28.5% of property taxes levied to pay debt in Covert Township. Commercial property taxes account for more than 3.0% of local property taxes to pay debt in only three townships, while industrial personal property taxes account for more than 5.0% of local property taxes to pay debt in eight townships.

Additional detail will be presented in the forthcoming issue paper. Should you have any questions or need additional information, please contact me at 3-2768.

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c: Ellen Jeffries, Director
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