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Snyder targets $800M biz tax: Communities want plan if personal property tax dies

By Amy Lane

LANSING -- The next big tax reform -- getting rid of Michigan's $800 million-plus tax on industrial and commercial personal property -- is heading to the Capitol.

Shaping up is a Snyder administration proposal to eliminate the tax businesses pay on everything from office equipment and furniture to industrial presses.

Proponents of eliminating the levy say it discourages business investment and growth and makes Michigan uncompetitive.

"It's a disincentive to place productive equipment in Michigan," said Lt. Gov. Brian Calley, who is spearheading development of a proposal expected to emerge this fall.

"It's not a system I want to fix; it's a system I want to get rid of."

Personal property tax is assessed on utility property, but Calley sees the commercial and industrial tax as most urgent.

But local governments, whose budgets have already been hit by declines in tax revenue from real property and cuts in state revenue sharing, say they can't afford to lose a source of funds that is stable and that in some communities supports more than 50 percent of budgets.

"To us, it's not a matter of what is or isn't eliminated. It's a matter of guaranteeing the replacement," said Summer Minnick, director of state affairs at the **Michigan Municipal League**.

"Our main concern is that we find a secure funding stream for local governments."

Calley declined to provide details of the developing plan, including whether there would be a dedicated source of revenue to replace the funding to local governments in whole or in part, but he said the administration intends to provide "a reasonable and adequate transition cash flow for local governments and districts that depend on that money."

The league is readying a public awareness campaign dubbed "Replace, Don't Erase," to encourage lawmakers to devise full, guaranteed replacement funding for any personal property tax that's eliminated. The campaign includes a website that launched last week, a letter-writing effort and media outreach.

According to the latest **Michigan Department of Treasury** estimates, tax on industrial personal property generated about $412 million in 2010, although a 35 percent credit that was part of the Michigan Business Tax reduced that total to about $268 million. Taxes on commercial personal property were $399 million, and utility personal property taxes were about $397 million.

Manufacturers want tax gone

Mike Johnston, vice president of government affairs for the **Michigan Manufacturers Association**, said manufacturers, by virtue of the amount of equipment they have, are hit particularly hard by the tax.

The MMA had hoped to tie personal property tax elimination into the creation of the state's new 6 percent corporate income tax but is now focusing efforts on this fall and "making sure that it's top of the policy discussion," Johnston said.

He said the MMA recognizes the importance of the tax to local communities and will work with them on addressing revenue needs, but the association does not yet have a solution it is proposing.

"We need the services that communities provide. We view communities as partners in our competitiveness," Johnston said.

Calley indicated that the tax on industrial and commercial property might be phased out over five years, and that future changes would also be in store for the utility portion.

According to Treasury data, school districts receive the largest amount of tax, followed by cities and counties. After that comes a state share that goes into the School Aid Fund, followed by intermediate school districts, townships, community colleges and villages.

What other states have done

One element Calley and some lawmakers are looking at is how other states have eliminated their personal property taxes.

According to the **Council on State Taxation**, a Washington-based tax organization representing more than 6,000 multistate corporations, 11 states have no general business personal property tax. They are: Delaware, Hawaii, Illinois, Iowa, Minnesota, New Hampshire, New Jersey, North Dakota, Ohio, Pennsylvania and South Dakota. Some of those states still tax certain public utility personal property. In a 12th state, Kansas, business personal property acquired after June 2006 is exempt.

Johnston said in many states that still have personal property taxes on businesses, the rates are low or relatively insignificant. He said the biggest concern is "other industrial states who are our competitors for industrial investments," like Ohio.

Ohio eliminated its personal property tax as part of a 2005 business and individual tax reform that instituted a new commercial activity tax, or CAT, a tax based on gross receipts. Ohio phased out its $1.6 billion general personal property tax on business from 2005 to 2009 by gradually reducing the percentage of true value at which personal property was assessed.

Of the $1.6 billion that the Ohio personal property tax generated, about 70 percent went to schools and 30 percent to local units of government. For an initial five-year period, both were held harmless and revenue was fully replaced by a mix of state general funds and the new CAT.

The Ohio plan contemplated that reimbursement payments to locals would be phased out and eventually end in 2018. However, under a new administration and legislative leadership, the payments are being reduced significantly in the two-year fiscal 2012-2013 budget to help cover a projected $8 billion deficit.

After 2013, some schools and local units will no longer receive any reimbursement, while others who were more reliant on payments will continue to receive money through the scheduled reimbursement period.

That ability for replacement revenue to be altered worries the municipal league, which wants replacement revenue constitutionally guaranteed. In the Legislature, such a constitutional amendment would require approval by two- thirds of members in the state House and Senate to go on the ballot before Michigan voters.

Sara Wurfel, Gov. Rick Snyder's press secretary, said the administration does not know "whether something is going to be a dedicated funding source. We don't know whether it's going to be whole or in part" revenue replacement.

She said, "Everything is still being closely looked at, other than there's a very strong commitment to make sure there's some kind of replacement revenue."

Community impact varies

The importance of personal property tax to communities can vary widely, depending on their economic makeup and the prevalence of industrial, commercial and utility property.

In Auburn Hills, for example, home to **Chrysler Group LLC** headquarters and many research and development and industrial operations, personal property tax is about $5 million of an approximately $23 million revenue stream that supports general operations, police, fire and other areas, said City Manager Peter Auger. The remainder of the city's approximately $50 million budget is made up of internally generated funds and money dedicated for capital improvements such as streets, water and sewer.

If the personal property tax revenue disappeared, "we'd have to start eliminating services," Auger said. "So we're very interested in being part of a process to see how municipalities operate into the future."

Still, Auger said the city understands the implications to business, both those that it currently houses and those it wants to attract.

"We understand that there are other states that don't have the personal property tax, because we are at the table recruiting national and international companies," he said. "It puts us at a disadvantage."

Some communities that may not have had much personal property tax revenue are seeing that change, with Michigan's march toward more wind energy.

Wind farms are classified as industrial personal property. And one of the incentives for communities to host them "is the fact that there is some revenue that does come to the local government through personal property tax," said David Bertram, legislative team leader at the **Michigan Townships Association**.

If those were to be exempt, he said, "We have a lot of communities that might turn quickly on being hosts for wind farms."

Even now, though, communities may be reliant on the revenue from the personal property tax but they're not wedded to the tax itself. The municipal league says its members don't like the tax and they and others say it can be difficult to administer and track.

For example, Bertram at the townships association said it's not easy to determine the owner of mobile property, like heavy construction equipment. It can be labor-intensive and involve locating an owner that may be in another state, he said.

"We understand that personal property tax is not popular from a business standpoint. It's not even popular from our own township officials who have to collect it," Bertram said.

"The problem is … we can't afford the revenue loss. So we're very concerned about how this gets structured, and that it gets done right."

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