

## INDUSTRIAL PROPERTY TAX ABATEMENT (P.A. 198 OF 1974, AS AMENDED)

Industrial property tax abatements provide incentives for eligible businesses to make new investment in Michigan. These abatements encourage Michigan manufacturers to build new plants, expand existing plants, renovate aging plants, or add new machinery and equipment. High-technology operations are also eligible for the abatement. 'High-technology activity' is defined in the Michigan Economic Growth Authority (MEGA) Act as: advanced computing, advanced materials, biotechnology, electronic device technology, engineering or laboratory testing related to product development, medical device technology, product research and development and advanced vehicles technology or technology that assists in the assessment or prevention of threats or damage to human health or the environment. Abatements Under P.A. 198 can significantly reduce property taxes on new investment for eligible firms.

### ESTABLISHING THE DISTRICT

Tax benefits are granted by the legislative body of the city, township or village in which the investment will be located. A public hearing is held and a resolution is adopted to approve the establishment of an Industrial Development District (for a new project) or a Plant Rehabilitation District (for a rehabilitation project). A written request to establish the district must be filed with the clerk of the local unit of government prior to commencement of construction, alteration or installation of equipment.

Once the district is established, the company may apply for an abatement on property taxes (real and personal) for up to 12 years.

### APPLICATION PROCESS

Industrial property tax abatements must be approved at both the local and state levels. The eligible business files an application (Michigan Department of Treasury Form 1012) with the local clerk after the district has been established and no later than six months after commencement of the project. The local unit adopts a resolution approving the application and determines the length of years for the

abatement. After a local public hearing, the application is filed and reviewed by the State Tax Commission (STC) and the Michigan Economic Development Corporation<sup>SM</sup> (MEDC). The STC then grants final approval and issues the exemption certificate. Locally approved applications (with attachments) must be received by the STC no later than October 31, in order to receive consideration and action by December 31.

Applications to the STC must include an agreement signed by the local unit and the operator of the facility outlining the conditions of the abatement. This shall include an affidavit that no payment of any kind in excess of the fee allowed under the Act has been made or promised in exchange for favorable consideration of the exemption application.

Once approved, the firm pays an Industrial Facilities Exemption (IFE), instead of the property tax, that reflects the abatement savings.

### ELIGIBLE FACILITIES

Industrial plants eligible for tax abatement are those that primarily manufacture or process goods or materials by physical or chemical change. Related facilities of Michigan manufacturers such as offices, engineering, research and development, warehousing or parts distribution are also eligible for exemption.

Research and development laboratories, high-tech facilities and large communications centers can qualify throughout Michigan.

Facilities used for warehousing, distribution or logistics purposes can be eligible if they locate in specific border counties. At least 90% of the property, excluding the surrounding green space, must be used for warehousing, distribution, logistics or communications center and occupy a building or structure that is more than 100,000 square feet. Eligible border counties include Berrien, Branch, Cass, Chippewa, Dickinson, Gogebic, Hillsdale, Iron, Lenawee, Menominee, Monroe, St. Clair, St. Joseph and Wayne.

The exemption applies to buildings, building improvements, machinery, equipment, furniture and fixtures. Real and personal property are eligible whether owned or leased (provided the lessee is liable for payment of taxes on the property).

The exemption covers only the specific project that is the subject of the application. Any buildings and equipment that existed prior to construction of a new facility are not exempt. If the project is for rehabilitation, the value of any pre-existing obsolete property is exempt from ad valorem property taxes, but will be used as the base for the IFE. Similarly, any structures or equipment added after completion of the project are fully taxable.

Land is specifically excluded from the benefits of the act and is fully taxable.

### **TAX IMPACT**

#### **The New Industrial Personal Property Exemption and IFE Treatment**

Under the reforms related to the Michigan Business Tax (MBT), industrial personal property situated on industrial parcels will automatically be exempt from the 6-mill State Education Tax (SET) and 18 mills for local schools. The automatic exemption of 24 mills will continue after the IFE expires. The remaining local mills will be abated 50% under P.A. 198.

#### **Real and Non-Industrial Personal Property IFE Treatment**

The IFE on a new plant and non-industrial personal property (like high-tech personal property) is computed at half the local property tax millage rate. This amounts to a reduction in property taxes of approximately 50%. In addition, the 6-mill SET may be abated 100%, 50% or not at all. Any SET abatement must be negotiated with the MEDC.

#### **Rehabilitation of Real or Personal Property IFE Treatment**

For an obsolete plant or machinery that is being replaced or restored, the IFE is frozen at the assessed value of the plant prior to improvement. This results in a 100% exemption from property tax on the value of the improvements.

#### **Speculative Building IFE Treatment**

In order for a speculative building to qualify for abatement, the local unit must approve a resolution declaring it as a speculative building prior to identifying occupants. Initial construction and finishing costs would be eligible for a reduction in property taxes of approximately 50%.

### **ADDENDUM**

#### **Personal Property Tax Relief**

In addition to the automatic reduction of 24 mills on industrial personal property, manufacturers are allowed to claim a 35% tax credit on the MBT form for property taxes paid on the same industrial personal property. The estimated overall impact is a 65% reduction in property taxes on industrial personal property.

Commercial personal property will receive an automatic reduction of 12 mills for local schools on their property tax bill.

For more information, contact the MEDC Customer Assistance Center at 517.373.9808.