

# Simplified Tax Structure Benefits Local Governments

By Dr. Eric Scorsone

In recent years, there have been changes in Michigan's personal property tax structure.

With the goal of making Michigan's tax structure simple, fair and efficient, legislation was passed in 2012 and 2014 to reform Michigan's Personal Property Tax (PPT) and create the Local Community Stabilization Authority (LCSA). Michigan citizens also voted in favor of the reform in 2014.

Prior to the personal property tax reform, businesses were taxed on industrial machinery and equipment through local millages, creating an uncompetitive economic climate and making communities financially susceptible to economic changes.

Reforming the century-old PPT laws was critical to Michigan's economic growth and sustainability. Equally as important was ensuring that local government units did not lose crucial resources due to this change.

The state committed to reimbursing local units who relied on revenue from the PPT. Reforming the PPT has proven

to be great for job providers, with nearly 500,000 private sector jobs being created in Michigan. The PPT reform package includes three provisions: a small taxpayer exemption; an exemption for eligible manufacturing property; and an Essential Service Assessment (ESA).

## Reimbursements You Can Count On

The dollar amount local governments are entitled to share each year is specified in state law and based on Michigan Department of Treasury estimates that were made prior to the enactment of the reforms. Those estimates were calculated to fully reimburse local units for 100 percent of their tax loss stemming from the reforms.

Under the statutory reimbursement formulas, some PPT losses are guaranteed at 100 percent reimbursement, while others without the 100 percent guarantee can be reimbursed at more or less than 100 percent, depending on the remaining amount of revenue available.

PPT losses that are guaranteed to be reimbursed at 100 percent include:

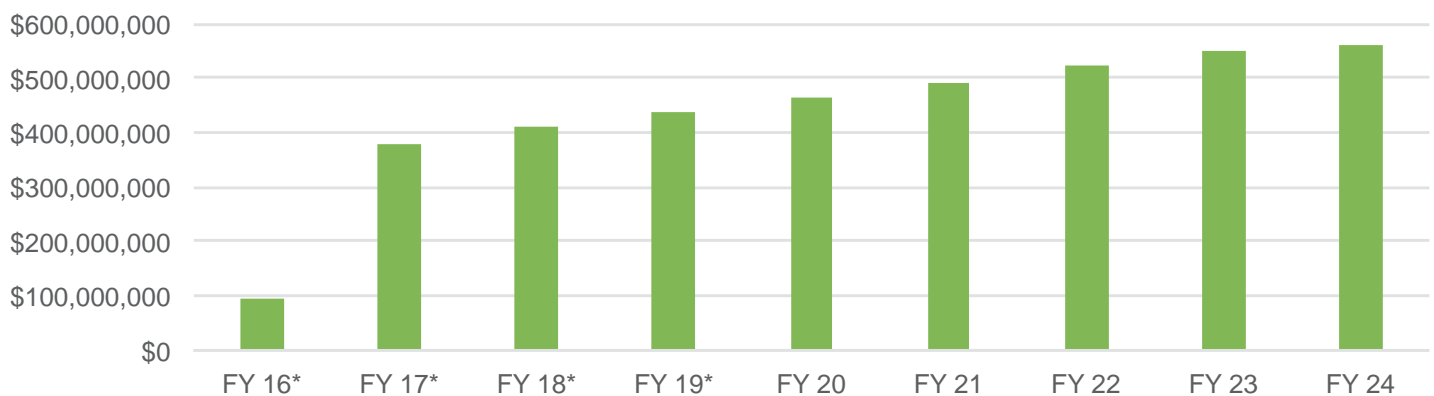
- Local and intermediate school district losses
- Millages used to fund essential services, specifically police, fire, ambulance, and jails
- Decline in Tax Increment Finance (TIF) plan captured value of commercial and industrial personal property
- 2015 small taxpayer exemption losses

*“The personal property tax reforms are a shining example of the success that can be achieved when different interest groups come together in the spirit of cooperation to solve a problem—in this case, a problem that had existed for more than 100 years.”*

## 2016 PPT DISTRIBUTIONS

Amounts paid to each local government are posted on the Treasury web page at [Michigan.gov/ppt](http://Michigan.gov/ppt) and can be found by clicking on “New! Personal Property Information,” then on “Personal Property Tax Reimbursements.” The website also includes a calculation tool that provides the formula factors used to calculate the 2016 PPT distributions for other municipalities and a distribution calculation.

Use Tax Money to Authority for Reimbursements



\*Up to \$0.3 million for administration



1. League PPT meeting with U.P. officials in Marquette 2. State Representative Marcia Hovey-Wright joins PPT meeting in Muskegon

In 2016, the first reimbursements were made using these formulas. Some local units saw an increase in reimbursements—all the result of the cooperative agreement worked out between local units and the state in 2014 to eliminate the onerous and job-killing PPT. Reimbursements are specified and guaranteed in state law and are not related or dependent upon the amount of revenue collected by the state from any tax.

In late November, the Local Community Stabilization Authority sent more than \$302 million in payments to local units made up of municipalities, libraries, authorities, community colleges, and school districts to reimburse for losses caused by declining PPT values.

In February, nearly \$72 million in additional funds was distributed to townships, counties, and other municipalities that only levy millages in December. The personal property tax reforms are a shining example of the success that can be achieved when different interest groups come together in the spirit of cooperation to solve a problem—in this case, a problem that had existed for more than 100 years.

To learn more about PPT, go to [www.michigan.gov/ppt](http://www.michigan.gov/ppt). Dr. Eric Scorson is the senior deputy state treasurer for the Michigan Department of Treasury. You may contact him at 517-373-4415 or [ScorsonE@michigan.gov](mailto:ScorsonE@michigan.gov).


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