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A $1.2 billion question for business, government: How will personal property tax change in 2012?

By Amy Lane

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LANSING — After months of discussion, changes in the state's personal property tax are expected to roll in 2012.

Gov. Rick Snyder this week said the issue is on the administration's agenda in the new year. Those involved in the debate expect that to be the case.

The question is: What shape will changes take in a tax that generates about $1.2 billion spread over industrial, commercial and utility property?

Snyder discussed broad concepts: Placing the highest priority on eliminating the tax on industrial property, which represents about a third of revenue generated; possibly using the state's expiring business tax credits to provide replacement revenue to local governments; and looking at exempting "lower-dollar-volume filers" from the tax.

The governor spoke with *Crain's* in a wide-ranging interview Monday.

Mike Johnston, vice president of government affairs at the **Michigan Manufacturers Association**, said the MMA is pleased the administration is keeping the issue high on its agenda.

"We are confident that we will be doing this in 2012 and starting it hopefully early in 2012 and removing this barrier to competition for Michigan manufacturers," Johnston said.

Snyder said he is sensitive to the impact on municipalities and wants further discussion with them on eliminating the tax. And even then, it won't happen overnight.

"This is a solution that's a five- to 10-year solution," the governor said.

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

Local governments, whose budgets already have been hit by declines in revenue from real property taxes and cuts in state revenue sharing, say they can't afford to lose a stable source of funds that in some communities supports more than half of their budgets.

Summer Minnick, director of state affairs at the **Michigan Municipal League**, said the league has been "engaged in very good discussions" with the administration and House Speaker Jase Bolger, R-Marshall. The league sees those parties as "aware of the complexities" of the issue and has begun discussions in the Senate.

The league has expressed the need for constitutionally guaranteed revenue replacement to ensure that funding is not subject to the whims of future lawmakers or administrations.

"The problem is, promises made by any governor, Legislature, aren't permanent," Minnick said.

The Snyder administration has looked at so-called certificated tax credits that were previously awarded — like those for general **Michigan Economic Growth Authority** projects and for advanced battery manufacturing projects. The state is honoring those tax credits in Michigan's new business tax system, but they have a limited life.

As certificated credits phase out, the money that the state no longer would be paying on the credits potentially might help local governments that would be losing revenue from elimination of the personal property tax.

As the credits "roll off," in theory it could give the state resources to deal with personal property tax reform, Snyder said.

He said that he knows municipalities are financially stressed and that "our goal is not to put them in a precarious position." But Snyder also said he could not guarantee every dollar would be replaced.

Data from the **Michigan Department of Treasury** this fall estimated certificated credits to be claimed over the next several years:

- $293 million in fiscal 2012.
- $526 million in fiscal 2013.
- $638 million in fiscal 2014.
- $637 million in fiscal 2015.
- $541 million in fiscal 2016.
- $369 million in fiscal 2017.
- $355 million in fiscal 2018.
- $346 million in fiscal 2019.

Minnick of the municipal league said she has concerns about revenue from the credits being adequate as well as the stability of tapping that source.

"Legislatures change their mind on issues like credits, and so to tie something that is so critical to communities to something that could be in flux from Legislature to Legislature is a concern," she said. "We prefer to see something more stable."

The league has not advocated specific replacement revenue.

Johnston at the manufacturers association said using expiring tax credits to pay for personal property tax relief makes sense and fits with the administration's desire for Michigan to have a balanced budget and live within its means — a concept the MMA supports.

As for a phase-out, Johnston said that "if we got to do what we want to do, we would eliminate it all Jan. 1, 2012."

Increasing the urgency, he said, is that many large corporations, including manufacturers, will see a tax increase in the switch from the Michigan Business Tax to the new 6 percent corporate income tax on "C" corporations. The tax change also eliminates an industrial personal property tax credit under the MBT.

"For those who see tax increases, that's a double whammy," Johnston said.

But he said the MMA understands the need to address local units' revenue concerns and their current long-term obligations.

"But ultimately, our goal is to eliminate this tax," Johnston said. "We truly believe that Michigan communities will benefit when there is more industrial investment in this state."

Snyder said that of the personal property tax levied on industrial, commercial and utility property, industrial property is the larger priority and has a "bigger job multiplier." However, the governor said, he won't rule out addressing commercial or utility property taxation at some point.

Minnick said one concern with targeting industrial property "is the intense impact on our urban core communities, which in many cases are the ones most financially stressed."

But Johnston said that "industrial assets … can go anywhere" and that eliminating the tax is important for Michigan to be competitive.

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