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The Michigan Personal Property Tax: Effects of Repeal on Michigan's Economy and Tax Revenues

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EXECUTIVE SUMMARY

The Michigan Personal Property Tax (PPT) has attracted consistent criticism from Michigan's business community. The pressure for reform has increased since a business tax credit worth 35% of PPT liability was repealed as part of this year's business tax overhaul, which led to the creation of the new corporate income tax (CIT). The purpose of this report is twofold: to qualitatively discuss the effect of repealing the PPT on Michigan's economy, and to describe the effects of repeal on local and state government tax revenues.

Summary of Findings

1. *Repeal of the PPT would improve the state's competitive position relative to other states, even if most of the lost revenue were replaced by other taxes.*

Currently, the personal property tax raises the cost of owning machinery and equipment in the state. In turn, this lowers the returns on investment in certain types of capital, particularly for industrial firms. This lower return discourages investment in Michigan, affecting Michigan's competitive position among its peers who do not have a personal property tax. This is especially true for attracting manufacturers, who tend to bring relatively high-paying jobs to the state.

In addition, the PPT's high compliance costs add to the cost of doing business in Michigan in all sectors. Furthermore, many local and state economic development agencies offer credits and exemptions to lower PPT liability and attract firms. Eliminating the PPT improves Michigan's competitiveness and eliminates some costs associated with implementing these incentives.[1] See "The PPT Discourages Investment in High-Wage Industries" on page 5.

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2. *Many businesses will see their PPT liability increase in January 2012 due to repeal of the Michigan Business Tax (MBT) this year.*

Under current law, some companies will see a rise in the net costs imposed by the PPT starting in January 2012 because a key MBT tax credit tied to a firm's PPT liability is not included in the new CIT plan. This credit provided an estimated $137 million in tax relief for Michigan firms in FY 2011.[2] Nevertheless, other reforms passed in 2007 exempting industrial and commercial personal property from some school property taxes will remain in place, leaving the cost of the PPT significantly lower than it was before the MBT was enacted. See "Personal Property Tax Overview and Effective Rates" on page 4.

3. *The PPT provides, in aggregate, 2.7% of total non-school local government revenue and just over 1% of revenue for schools.*

The PPT provided statewide aggregate local government revenues, not including revenues to schools, of $705 million in 2008, with significant variation among communities.[3] To put this figure into context, this is the amount of revenue that would have been collected by a hypothetical 2.1-mill statewide tax on real property. (In 2010, the statewide average tax rate was 35.9 mills for residential property and 48.9 mills for nonresidential property.[4]) The PPT also provided aggregate revenue totaling $311 million for school operating purposes in 2008. Through local millages, the PPT funded 1.2% of school operating expenditures. The PPT also provided 1.0% of revenues to the state's School Aid Fund. See "PPT Is an Important Funding Source for Local Government" on page 10.

4. *Certain local governments and school districts would be disproportionately affected by elimination of the PPT. Replacing at least several years of lost PPT revenue for these entities would be an important aspect of any reform.*

For the majority of Michigan townships and cities, personal property made up less than 6% of the property tax base in 2010. On the other end of the spectrum, 31 communities had over 30% of their property tax base coming from personal property and 8 communities had over 40%. (There were a total of 1,534 townships and cities in the state in 2010.[5]) In these communities, public officials and voters would need time to consider and implement spending and tax changes if personal property were no longer taxable. See "PPT Is an Important Funding Source for Local Government" on page 10.

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1. Two initiatives that currently offset industrial PPT liability are PA 198 and PA 328. Our 2010 report on Michigan business tax incentives found these to be effective at job creation, in part because PPT relief can affect business location decisions. See P. Anderson, et al, "Effectiveness of Michigan's Key Business Tax Incentives," Anderson Economic Group, March 2010.
2. Michigan Department of Treasury, "Executive Budget Appendix on Tax Credits, Deductions, and Exemptions Fiscal Year 2011."
3. School districts are local units of government, but in this report we use "local governments" to refer to non-school units, including cities, villages, townships, and counties.
4. For all property, we use Michigan Department of Treasury, "2010 Ad Valorem Property Tax Report." For nonresidential property, we use Michigan Department of Treasury, "2010 Commercial, Industrial and Utility Property Tax Report."
5. This is the number of townships and cities for which the Michigan Treasury has provided property tax data.

5. *Maximum allowable millage rates for local governments and school districts would not be affected by reform of the PPT.*

Some local governments may consider higher property tax rates on real property as part of a long-term revenue replacement plan in the event of PPT reform. Any discussion of changing property tax rates must consider the limits imposed by the Headlee Amendment to the Michigan Constitution, which established a maximum allowable millage rate for local governments. Michigan law and the State Constitution require that any increase of millage rates above this maximum value (which varies by jurisdiction) be approved by a popular vote.[6]

Legislative implementation of the Headlee Amendment initially allowed for "rollups" in the maximum rate to occur when the value of the local tax base fell. In other words, local governments could increase the millage rate to raise the same amount of revenue on a smaller tax base. A Blue Ribbon Commission found this practice to be inconsistent with the language of the Amendment,[7] and the practice was ended by reforms to the tax code in early 1995.[8] Therefore, though some units of local government would see a considerable reduction in their tax base due to PPT reform, local governments and school districts in Michigan would continue to face the same constraints on allowable millage rates. See "PPT Repeal and the Headlee Amendment" on page 13.

OUTLINE OF REPORT

The remainder of this report begins with a description of the personal property tax in Michigan and how it has evolved over the years. We show how recent changes have affected the effective personal property tax rate for businesses in various industries. Next, we summarize the effects of the personal property tax on Michigan's economy, explaining how it puts the state at a competitive disadvantage and places the greatest burden on some of the state's most productive and high-paying industries. Finally, we discuss the effect that PPT reform would have on revenue for local governments and school districts.

In order to assess the impact of repealing the state PPT, this report focuses on the consequences of repeal for state and local government revenues, and Michigan businesses and workers. The scope of our discussion of economic impact is limited to a qualitative summary of the effects of PPT repeal according to economic theory. We do not attempt to quantify the impact of any economic benefits of PPT reform on output, employment, or tax revenues. We also do not recommend or evaluate any particular spending or tax reform that might occur in the wake of PPT reforms, though we acknowledge that some communities rely on the PPT for a substantial portion of their revenue. For a summary of methods and data, see the appendix, "Data and Methods" on page 18.

6. There is an exception to this rule for millages that are used to pay off debts. There is no maximum allowable rate on taxes used to pay the principal and interest of voter-approved bonds.
7. "Headlee Blue Ribbon Commission, A Report to Governor John Engler," September 1994.
8. "The General Property Tax Act," Act 206 of 1893, Section 211.34d(8)-(11), Michigan Compiled Laws. The relevant amendments took effect on April 28, 2005.

PERSONAL PROPERTY TAX OVERVIEW AND EFFECTIVE RATES

Tax law distinguishes between two major classes of property: "real" property, comprising land and the buildings on it, and "personal" property, denoting every other type of possession, from household effects to business machinery. The Michigan Personal Property Tax dates to the General Property Tax Act of 1893, although lawmakers have revised it extensively since its enactment. As states neighboring Michigan have continued to reduce their personal property tax, the PPT has seen perennial attempts at reduction or repeal in Michigan. Legislation to lower businesses' PPT liability has resulted in reductions in industrial property taxes in particular.

One such change occurred in 1974, when the state established the "industrial facilities" tax (under Public Act 198 of 1974). Upon constructing, renovating, or replacing a facility, industrial firms may apply to local governments for an industrial facilities exemption or reduced rate in lieu of general property taxes. The industrial facilities tax freezes the taxable value of newly improved industrial sites at the pre-improvement level for up to twelve years following changes, and offers a 50% rate reduction for new facilities.

Two further reforms were passed in 2007 after Michigan voters petitioned to repeal the Single Business Tax (SBT).[9] The SBT was replaced by the Michigan Business Tax (MBT), which introduced a tax credit worth 35% of the tax liability on industrial personal property. This credit significantly reduced the marginal tax rate faced by manufacturers and other industrial property owners. In concert with passage of the MBT, the Michigan legislature passed Public Acts 37 and 38 of 2008, which exempted industrial personal property from up to 18 mills of local school levies as well as the 6-mill state education tax. PA 37 also exempted commercial personal property from up to 12 mills of local school levies.[10] Due to these reforms, the statewide effective property tax rate on industrial personal property decreased from 56 mills in 2004 to 20 mills in 2008, according to our estimates.[11]

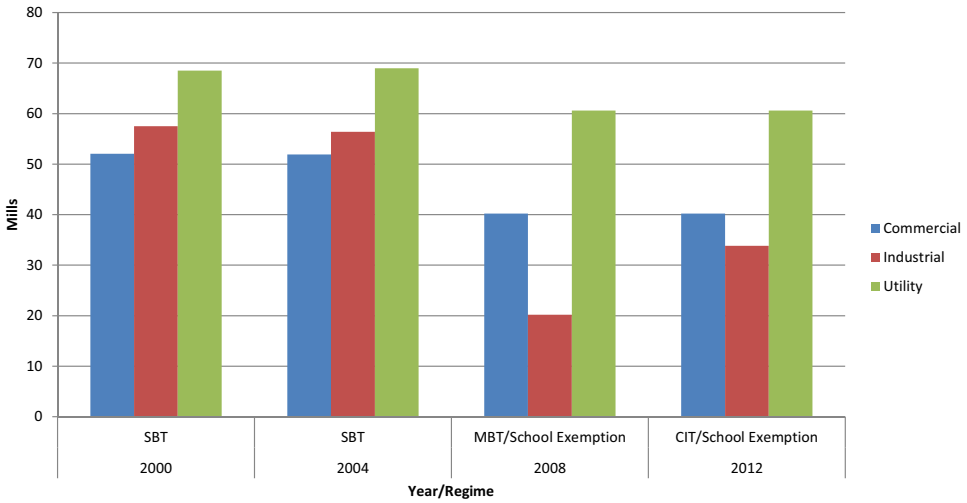
In May 2011, the MBT was repealed. Its replacement, the corporate income tax (CIT), takes effect starting January 1, 2012. Repeal of the MBT will eliminate the 35% credit for industrial personal property, but the tax exemptions for personal property included in PA 37 and PA 38 will remain in effect. As a result, the effective rate paid by industrial property owners will soon increase from current levels, but will remain below 2004 levels.

The statewide effective tax rate shown in Figure 1 on page 5 was estimated by subtracting MBT credits from the total property tax levy (including Industrial Facilities Tax liability for firms paying this tax in lieu of property taxes under PA 198) and then dividing by total taxable value. (For more information on how

9. The SBT was repealed by an initiated law brought to the legislature by a petition of the voters of Michigan. After the legislature adopted the measure, it became PA 325 of 2007. It was enacted in the beginning of 2008.
10. State Tax Commission, "Michigan Business Tax Bulletin No. 7," October 2, 2007.
11. See the discussion below and the calculation in "Data and Methods" on page 18.

we calculated the effective tax rate, see the appendix, "Data and Methods" on page 18.) We project that the effective PPT rate on industrial property will increase to approximately 34 mills under the new CIT structure, more than a 50% increase over the current effective rate.

FIGURE 1. Statewide Effective PPT Rates by Type of Property, 2000-2012



Sources: Michigan Treasury Office of Revenue and Tax Analysis. The Michigan Property Tax Real and Personal, 2002, and statistical updates, 2005, 2008
Analysis: Anderson Economic Group
Note: Effective tax rate is calculated by dividing tax collections less credits for personal property by taxable value. The effective tax rate in 2012 is based on AEG projections. See Appendix.

THE PPT DISCOURAGES INVESTMENT IN HIGH-WAGE INDUSTRIES

In this section, we discuss the implications of taxing personal property for the Michigan economy. What follows is not an empirical study of the effects of personal property taxation on businesses, nor is it a predictive model that would quantify the potential costs and benefits of repealing or replacing the personal property tax. Rather, this section discusses the economics behind taxation of personal property and its effect on incentives for businesses. We discuss how business response to altered incentives might in turn affect the general health of Michigan's economy.

The PPT Base For the Commercial, Industrial, and Utility Sectors

The PPT tax base is divided into three classes of property: commercial, industrial and utility. Table 1 on page 6 compares the value of each sector's total output in 2008 with its PPT base. The comparison illustrates that inputs classified as personal property represent more important factors in industrial and utility production than in the commercial sector. In addition, it represents a very

important contribution to utility production. (Utility personal property includes pipelines, cables, generators, and electricity transmission equipment.)

TABLE 1. Michigan GDP and Personal Property Tax Base, by Sector, 2008

	Commercial	Industrial	Utility
Sector GDP ($ millions)	$194,189	$60,534	$7,916
Personal Property Tax Base ($ millions)	$10,293	$11,102	$7,252
Memo: Personal Property per Million Dollars of Output	*$53,005*	*$183,401*	*$916,119*

Sources: Bureau of Economic Analysis, Michigan Treasury Property Tax Real and Personal 2008 Statistical Update
Analysis: Anderson Economic Group, LLC
Note: Personal Property Tax Base is in terms of taxable value.

The utility sector accounted for over 25% of the personal property tax base in 2008. In general, utility businesses have much less scope for deciding between in- and out-of-state facility location decisions than industrial and commercial businesses. Nevertheless, the PPT likely affects utility companies' investment decisions and cost structure. As some of this property is owned by regulated industries with limited competition, it is likely that much of this tax is passed on to utility users, including both businesses and households, though some of the burden may be shared with the shareholders and employees of the firms in this sector. In all, $362 million in personal property tax was paid on utility property in 2008.[12]

The remainder of this section discusses the PPT's effects on other private businesses.

The PPT and High-Wage Industries

Taxes affect industrial development by altering the relative return on investment across different industries in a way that affects businesses' incentives to invest in the state. Ideally, investors will allocate investment capital to those enterprises that provide the highest available return on their money. The PPT taxes production inputs such as machinery, computers, and other equipment. By raising their production costs, the tax reduces profit margins, particularly in those industries that rely most on capital inputs, such as manufacturing, mining and energy supply.[13]

The PPT's effect on the cost of capital inputs can have real consequences for Michigan's economy. First, the PPT causes the returns on investment in capital-

12. Michigan Treasury Property Tax Real and Personal 2008 Statistical Update.

13. While the firm may pass some of the costs of taxation on to consumers in the form of higher prices, price-sensitive consumers will respond by buying less or buying from a lower-priced competitor, including competitors operating in lower-cost states.

intensive industries in Michigan to be lower, relative to alternative industries.[14] This means that capital-intensive operations in Michigan have more difficulty attracting the investment needed to expand or maintain production levels and employment relative to industries in the state that require fewer machines and equipment.

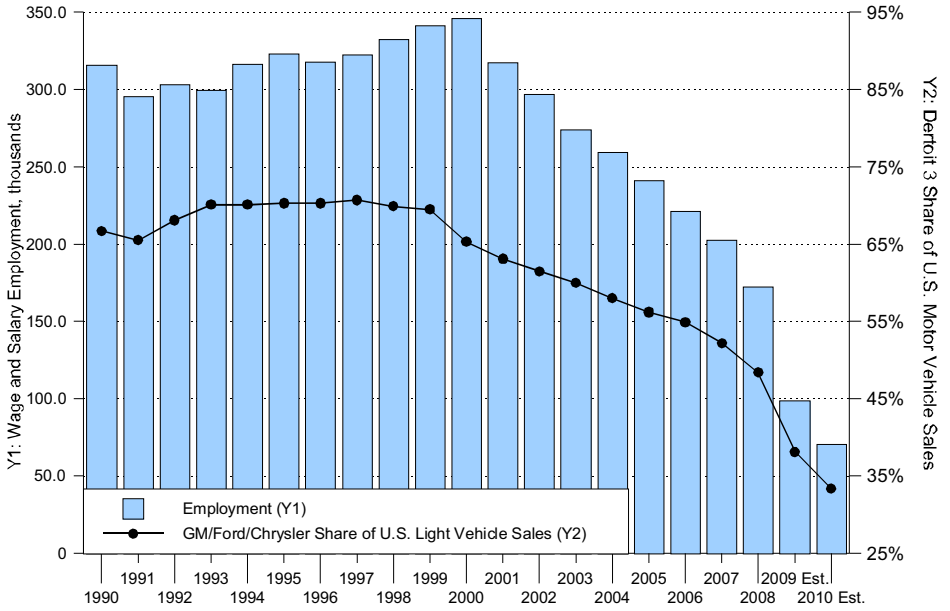
Second, locating in other states becomes more attractive due to the PPT. With the exception of Indiana, Michigan's neighbors either do not tax personal property or exempt a substantial portion of the base.[15] As Michigan struggles to maintain employment and national market share in manufacturing, policy makers must consider the effects of increased costs of capital inputs due to the PPT.

The effect of taxing personal property on the incentives faced by capital-intensive industries have always been present, but Michigan has nevertheless taxed personal property for decades. Part of the reason for this decision may have been related to Michigan's former status as one of the premier locations in the world for manufacturing businesses. In the same way that states such as California and New York have elected high individual income taxes to gain revenue from their location-specific champion industries (finance in New York and electronics and IT in California's Silicon Valley), Michigan's imposition of a PPT may have been less damaging economically when firms wishing to produce cars and other manufactured goods gained an unmatchable advantage from locating near Michigan's cluster of thriving manufacturing businesses. Whatever the merits of this decision in the past, Michigan's competitive situation has radically changed. Figure 2 on page 8 shows that manufacturing employment in the state's automotive sector and the domestic market share for the Big Three have declined precipitously.

14. "Capital-intensive" industries are industries that depend more on non-labor inputs, such as equipment and machines.

15. Michigan Department of Treasury, "Michigan Property Tax Real and Personal 2005 Statistical Update," Bureau of Tax and Economic Policy, Tax Analysis Division, 2006.
In 2005, Ohio began phasing out its personal property tax, and 2010 marked the tax's final year. (From Ohio Department of Taxation, "Property Tax - Tangible Personal Property," 2010.)

FIGURE 2. Michigan Transportation Equipment Manufacturing Employment and Big Three Share of National Auto Sales, 1990 - 2010



Source: "Michigan's Economic Outlook and Budget Review," Senate Fiscal Agency, May 13, 2009. Their sources include Bureau of Labor Statistics, Ward's Automotive Yearbook, Automotive News, and Senate Fiscal Agency.

Michigan economic policy has explicitly attempted to target growth in manufacturing for multiple reasons, including the state's history of success in the sector, perceived competitive advantages from the existing stock of skilled workers and capital, and the history of jobs in the sector supporting a higher standard of living in the state.

Manufacturing and other capital-intensive industries in Michigan tend to pay higher wages than others due to several factors. Output from manufacturing workers tends to be higher as workers effectively leverage the productive capacity of machines. Also, manufacturing professions sometimes require specialized skills for which firms are willing to pay a premium. Michigan's manufacturing industries have also historically had higher wages due in part to bargaining by unions at the firm and industry level.

As shown in Table 2 on page 9, capital-intensive manufacturing jobs in Michigan pay above-average weekly wages. Michigan manufacturing jobs have higher average wages than many service sectors with low capital intensity. (Exceptions within the service sector include jobs in which workers supply

valuable and unique human capital due to technical training and expertise, such as in engineering professions.)

TABLE 2. Average Weekly Wages by Selected Industries, 2008-2010

Industry	Annual Average Weekly Wage ($)		
	2008	2009	2010
All Industries, Public and Private	*851*	*839*	*855*
Manufacturing	1,150	1,128	1,149
Service Providing	773	765	778
Information	1,104	1,069	1,096
Financial Activities	1,020	1,024	1,052
Professional and Business Services	1,088	1,064	1,061
Education and Health Services	792	809	815
Leisure and Hospitality	303	305	311
Other Services	523	513	513

Source: BEA Quarterly Census of Employment and Wages
Analysis: Anderson Economic Group, LLC

To the extent that state and local governments choose to replace the PPT with some other source of tax revenue, this would marginally discourage investment in some other way. Nevertheless, since capital-intensive industries pay higher wages than the statewide average, the PPT has a more pernicious effect on the statewide economy than many replacement taxes might.

THE PPT HAS HIGH COMPLIANCE COSTS

All taxes create costs for taxpayers through the liability that must be paid, as well as through compliance costs, such as those incurred in calculating tax liability, preparing documentation, and processing payment. Yet a third category of costs from taxation is the cost to the government of administering and complying with the tax. PPT liability is calculated as a share of assets' acquisition cost, adjusted for depreciation. The tables used in this depreciation estimate were created by the Michigan state government and are distinct from IRS depreciation tables. This necessitates a time-consuming, and therefore costly, recalculation of taxable value that could be eliminated by simply allowing businesses to calculate depreciated value once for state and federal taxes.

Secondly, because there is not a minimum filing threshold, even a business with PPT liability that predictably falls below the cost of filing must pay the tax. A 1998 Anderson Economic Group report on the PPT concluded that businesses with personal property at a combined acquisition cost of less than $25,000 may incur compliance costs that exceed the tax revenue generated by their PPT liability.[16] If compliance costs have grown at the rate of inflation since then,

16. Patrick L. Anderson, "The Personal Property Tax in Michigan: Abolish or Reform?" Prepared for the Michigan Chamber of Commerce, Anderson Economic Group, 1998.

today's companies with personal property worth $35,000 or less at acquisition are spending more on compliance than the value of their tax liability.

The same Anderson Economic Group study estimated the public and private costs of complying with the tax. The results suggest that the private sector incurs compliance costs equal to roughly 37% of revenue collected by the tax, while the cost to the government of administering the tax falls between four and five percent of revenue collected. We are not aware of any other major statewide tax that has compliance costs of this magnitude. While elements of the PPT have changed since then, the key elements that influence its compliance cost have not, though improvements in software do allow for quicker liability calculation, document preparation, and payment processing.

PPT IS AN IMPORTANT FUNDING SOURCE FOR LOCAL GOVERNMENT

General property taxes represent the principal revenue source for services administered by local government, accounting for 52.9% of local revenues from own sources (excluding federal and state transfers) in 2008.[17] The PPT accounts for 7.9% of the total general property tax levy statewide. As shown in Table 3 on page 11, the majority of PPT collections fund local government, including counties, cities, townships, and villages. The personal property tax accounts for approximately 2.7% of total non-school local government revenue in Michigan. In addition, through local millages, the PPT funded 1.2% of school operating expenditures. Finally, PPT collections accounted for 1.0% of revenues to the state's School Aid Fund.

For all local governments and school districts combined, the personal property tax represented over $1.1 billion in revenues. To put this amount in context, this is equivalent to a statewide tax of 3.42 mills on real property. In other words, if all local governments throughout the state were to replace all revenue lost by eliminating personal property from the property tax base with an increase in real property tax rates, the result would be an increase of 3.42 mills on the remaining property tax base, on average. (See "PPT Repeal and the Headlee Amendment"

17. U.S. Census Bureau, 2008 Annual Survey of State and Local Government Finances.

on page 13 for an explanation of property tax rate limitations that would prevent this from actually occurring in practice.) The statewide average property tax rate for all taxing authorities was 48.9 mills for non-homestead property and 35.9 mills for homestead property in 2010. The statewide average property tax rate for all property (both homestead and non-homestead) was 39.7 mills in 2010.

TABLE 3. PPT Revenue Compared to Resources of Local Units of Government, 2008

Taxing Entity and Use	Total Revenue From All Sources ($ millions)	Personal Property Tax Levy ($ millions)	PPT as % of Total Revenue	PPT, Shown as Equivalent Statewide Tax on Real Property
Local governments - All Uses, excluding School Districts	26,033.9	705.4	2.71%	2.10 mills
School District - Operating	15,950.0[a]	192.3	1.21%	0.57 mills
School District - Debt & Capital	3,716.6[a]	135.1	3.64%	0.40 mills
State - School Aid Fund[b]	12,180.8	118.8	0.98%	0.35 mills
Total		*1,151.6*		*3.42 mills*

Source: Michigan Property Tax Real and Personal 2008 Statistical Update, Michigan Dept. of Education Revised 2007-08 Bulletin 1011, Michigan Comprehensive Annual Financial Report FY2008, AEG Estimates
Analysis: Anderson Economic Group
Note: Local governments and the school aid fund receive levies worth a combined $41.5 million from the industrial facilities tax. The remainder ($1,110.1 billion) comes from ad valorem property taxes on the personal property base. Utility property tax is not included because it goes to the state's General Fund. Total revenues are not additive because some school district operating revenues come from the school aid fund.

a. We use 2008 total expenditures as a proxy for aggregate revenue here. On average revenue and expenditures will match over time.

b. The school aid fund receives PPT revenues from the State Education Tax and part of the proceeds from the Industrial Facilities Tax.

The Impact of PPT Reform on School Districts

Local school districts rely on both statewide and local property taxes to fund operating expenses. In addition, local property taxes pay for principal and interest on debt issued by school districts to pay for capital expenditures.

There are two important features of Michigan's system of school finance that will determine the effect of PPT reform on operating funding for local school districts. First, districts are guaranteed a minimum per-pupil foundation allowance that is set by the legislature. This means that almost no district would have its per-pupil operating funding reduced as a result of personal property being removed from the tax rolls. Even though some districts would have a much greater drop in revenue from local operating millages than others (as discussed in "Variation in the Importance of PPT Revenues" on page 12), Michigan's system is designed such that the entire difference would be made up by state government appropriations from the School Aid Fund (SAF), bringing the per-pupil funding back to where it would have been before personal property was removed from the base. The only exceptions to this outcome might occur in districts designated as "hold harmless" districts under the Proposal A reforms of

1994. These districts are allowed to provide local operating funding above the state per-pupil allowance, so their funding per pupil could be affected by changes in local revenues.

The second important feature of Michigan's school finance system is that state legislators choose the minimum per-pupil allowance. The two main sources of funding for the per-pupil allowance are local operating millages and the state's SAF. Elimination of personal property from the tax base would affect both of these sources because, as discussed above, the PPT contributes 1.2% of locally-provided school operating revenue and 1% of revenue to the SAF. Over time, however, the economic growth associated with PPT reform (see Finding 1) would increase the revenue collected by other taxes, such as those on income and sales, that provide funds for the SAF. In addition, the legislature may choose to combine PPT reform with other spending and tax changes that affect the amount of revenue in the SAF. In the end, the amount of revenue from school operating millages and the SAF will influence the per-pupil minimum set by the legislature.

Unlike operating funding, funding for capital expenditures are not subject to a statewide system with statewide guaranteed minimums. In particular, voter-approved bonds are required by state law and by Article IX of the state Constitution to be paid in full. There is no limit on debt millages to pay principal and interest on voter-approved bonds. This suggests that an average, long-term increase of 0.4 mills on real property may occur to compensate for lost revenue dedicated to school debts alone. This could be an over- or underestimate depending on individual districts' level of bond fund reserves, how they choose to react to the elimination of personal property from their property tax base, future changes in the tax base, and any changes in debt payments already scheduled to occur.

Variation in the Importance of PPT Revenues

The importance of personal property tax revenue in local government finance differs across municipalities and school districts. As shown in Figure 3 on page 15, the share of property in a county that can be defined as "personal property" varies dramatically across the state. For example, the counties with the greatest share of personal property as a percentage of all property are in the Upper Peninsula, where there is little property in aggregate, but quarries and mines with extensive personal property dot the landscape.

Even within counties, there is a great amount of variation. In the suburbs of Detroit, bedroom communities are adjacent to large manufacturing centers but overseen by separate units of local government. The machines housed in manufacturing facilities are taxed as personal property, while household items, generally, are not subject to taxation. Local governments that oversee manufacturing and other industrial centers depend much more on personal property tax revenues than those that preside over primarily residential communities.

In 2010, personal property made up less than 6% of the property tax base in the majority of townships and cities. On the other end of the spectrum, 31 communities had over 30% of their property tax base in personal property, including eight with over 40%. (There were 1,534 cities and townships in the state in 2010, according to Michigan Treasury data.) Table 4 below shows the ten communities that rely the most on personal property for their property tax base.

TABLE 4. Personal Property as % of Total Taxable Value, Top 10 Michigan Communities, 2010

Name	Type	County Where Located	Personal Property Taxable Value ($)	Total Taxable Value ($)	Personal Property as % of Total Taxable Value
Winterfield	Township	Clare	27,462,732	44,317,260	62.0%
River Rouge	City	Wayne	183,638,417	323,261,285	56.8%
Blue Lake	Township	Kalkaska	63,794,100	113,007,968	56.5%
Wakefield	Township	Gogebic	14,221,952	27,096,241	52.5%
Chandler	Township	Charlevoix	10,217,400	19,791,423	51.6%
Litchfield	City	Hillsdale	28,113,051	56,252,032	50.0%
Ecorse	City	Wayne	121,064,208	264,256,682	45.8%
Goodwell	Township	Newaygo	12,210,000	30,440,699	40.1%
Sheridan	Township	Calhoun	29,609,342	74,244,947	39.9%
Wells	Township	Marquette	9,639,134	25,006,331	38.5%

Source: Michigan Department of Treasury
Analysis: Anderson Economic Group

PPT REPEAL AND THE HEADLEE AMENDMENT

Some local governments will probably consider using higher property tax rates on real property as part of a long-term revenue replacement plan in the event of a PPT repeal. Many of these governments, however, will find their efforts to do so constrained. Local governments in Michigan are subject to a maximum allowable tax rate as calculated under Article IX, Section 31 of the Michigan Constitution, otherwise known as the Headlee Amendment. Increases above the maximum allowable tax rate can only occur if they are approved by a popular vote.[18]

The maximum allowable rate would change annually based on changes to the tax base. The allowable rate would be "rolled back" as the taxable value of properties in a region increase faster than inflation (not counting for net additions to the property base). "Rollbacks" are still required by current Michigan law and the state's Constitution. Before 1995, municipalities could also "roll up" the rate when the tax base shrunk. A 1994 report issued by the Headlee Amendment Blue Ribbon Commission found these so-called Headlee "rollups" were inconsistent with the language of the Headlee Amendment.[19]

18. There is one exception to this rule. There is no maximum rate for taxes that are specifically tied to payment of debts. Once voters have approved a bond issue, there is no limit on the millage rates administered in order to repay that debt.

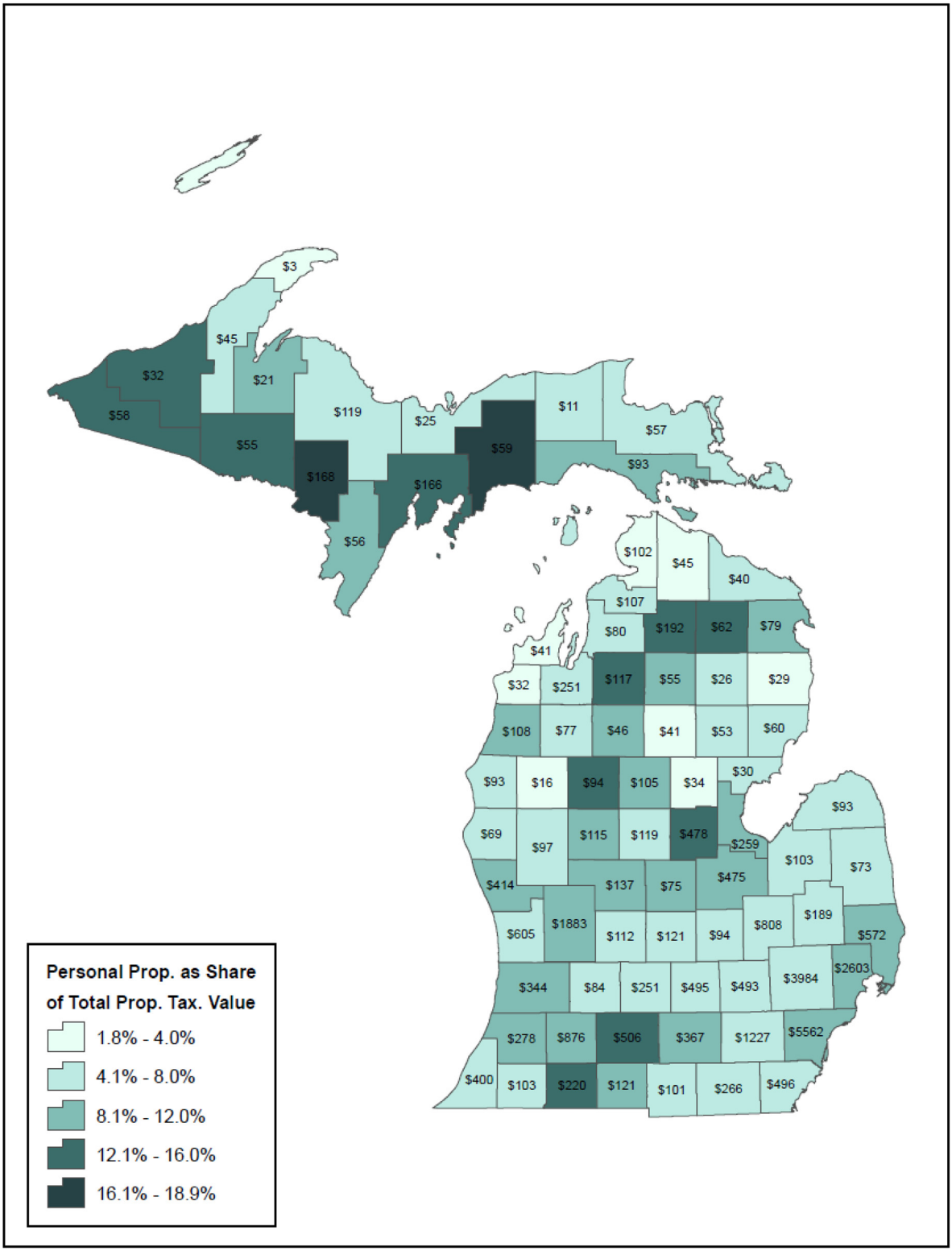
Due to changes made to the General Property Tax Act in 1995, municipalities cannot raise the maximum allowable tax rate in response to statewide changes that narrow the tax base.[20] In other words, the maximum allowable tax rate for local governments would not increase due to the removal of personal property from the tax base.[21] Therefore, in the event of PPT repeal, local units of government will face the same constraints as before, despite the fact that their tax base will have shrunk. Governments that are not currently taxing at their maximum allowable rate would have some room to maneuver, but the many governments that are already at their maximum rate would require voter approval for any increases.

19. "Headlee Blue Ribbon Commission, A Report to Governor John Engler," September 1994.

20. "The General Property Tax Act," Act 206 of 1893, Section 211.34d(8)-(11), Michigan Compiled Laws. The relevant amendments took effect on April 28, 2005.

21. In fact, Michigan tax law would preclude a rollup from occurring due to PPT repeal in any case. The tax code requires rollbacks in the maximum allowable tax rate based on the increase in taxable value of *only* the property that is taxable in both the current year and the previous year. If personal property is deemed no longer taxable, then it would simply not be included in the formula that determines the change in the maximum allowable rate for the upcoming year.

FIGURE 3. Personal Property Taxable Value as a Share of Total Property Taxable Value



Source: ESRI, Inc.; Michigan Treasury Department, "Michigan Property Tax Real and Personal Statistical Update, 2008"
Analysis: Anderson Economic Group, LLC

Note: Labels in each county show the taxable value of personal property in the county, in millions of dollars.

ABOUT ANDERSON ECONOMIC GROUP

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Appendix. Data and Methods

ESTIMATING EFFECTIVE RATES

To estimate the "effective" PPT rates, we divided the net tax levied on businesses (subtracting tax credits for PPT liability) by the total personal property tax base. Specifically, we took the following steps:

- To determine the effective tax rate for industrial personal property, we added the share of the industrial facilities tax that is for personal property to the ad valorem tax levy on industrial personal property. We then subtracted the total amount of MBT credit for industrial personal property.[22] This results in an estimate of the total tax collections on industrial personal property. We then divided this amount by the taxable value of industrial personal property to determine an effective rate.[23] See Table A below.

TABLE A. Calculating Effective Personal Property Tax Rates, Industrial

Tax	2004	2008	2012 (est.)[a]
Ad Valorem Tax Levy, Industrial Personal Property	$571.4	$333.9	$333.9
Industrial Facilities Tax[b]	$54.3	$41.5	$41.5
MBT Credits, Industrial Personal Property	$0	($151.4)	$0
Estimated PPT Collections, Industrial Property	$625.7	$224.0	$375.4
Total Taxable Value, Industrial Personal Property	*$11,095.5*	*$11,102.3*	*$11,102.3*
Effective Tax Rate on Industrial Personal Property	***56.4 mills***	***20.2 mills***	***33.8 mills***

Sources: Michigan Property Tax Real and Personal 2008 Statistical Update; 2007-08 Annual Report of the State Treasurer; Executive Budget Appendix on Tax Credits, Deductions, and Exemptions, FY2008; AEG Estimates
Analysis: Anderson Economic Group, LLC

a. For our 2012 estimate, note that we do not project a distinct levy or size of the tax base. We merely use the values from 2008, while removing the credits from the MBT that will no longer be in effect. We assume that this provides a good proxy for the effective tax rate on personal property in 2012 for the purposes of comparing it to the effective rate under the state's policies in 2008.

b. This line shows only the tax collected on personal property, estimated by assuming that the proportion of all property that was personal property was the same for facilities covered by the industrial facilities tax as for the broader industrial base.

- For commercial personal property, we divided the tax levy on personal property by the taxable value of that property.

22. Total amount awarded for the MBT credit on industrial personal property is based on the "Executive Budget Appendix on Tax Credits, Deductions, and Exemptions," published annually by the State of Michigan. Our estimate for 2008 is greater than the published figure because the MBT credit was only in force for part of the year. For purposes of comparison, we have projected a total for the entire year.

23. Taxable value State Equalized Value (SEV) for personal property not significantly different. In 2008 the aggregate amount of taxable value for all personal property in Michigan was 99.8% of the aggregate amount of SEV. See Michigan Department of Treasury, "Michigan Property Tax Real and Personal 2008 Statistical Update."

- For utility personal property, we added the revenue collected from the statewide utility property tax to the levy on utility personal property, and then subtracted the small credit for utility property contained in the MBT (or the SBT, for previous years). Then, we divided by the total taxable value of utility personal property.
- In making our estimate for the effective tax rate in the year 2012, we assumed that there will be no other major changes to the personal property tax other than the elimination of MBT credits for personal property. Our estimate for the effective tax rate on industrial personal property in 2012 consists of simply adding back the money that was provided to businesses through MBT credits on personal property liability. In doing so, we assume that the ratio of future collections to taxable value will be the same as in 2008.
- As the purpose of our estimate was to compare the tax burden change as a share of value over time, we chose the consistent medium of taxable value. Though there are some differences between taxable value and State Equalized Value, as mentioned earlier in this report.

DATA SOURCES

Information about tax levies and their distribution across different industries and counties was gleaned from data published by the Michigan State Department of Treasury. Every three years, the Treasury publishes statistics on real and personal property taxes levied in the state by county, industry, and type of property. Most of the data presented in this report is for the year 2008, as that is the most recent year for which comprehensive statewide property tax data is available.

To put personal property tax revenues in context, we look at them as a share of industrial output, as well as their share of total revenues for various government entities. For industrial output, we use state GDP, as presented by the Bureau of Economic Analysis. For local government and school district revenues, AEG estimated 2008 figures using projections based on statewide data (from the state's Comprehensive Annual Financial Report) and local government data from previous years (as published by the U.S. Census Bureau Survey of State and Local Government Finances).

State financial data and data on school expenditures are from the state's Comprehensive Annual Financial Report and the Department of Education Bulletin 1011, respectively.