

## Industrial Property Tax Abatement (P.A. 198 of 1974, as amended)

### Program Description

Industrial property tax abatements provide incentives for Michigan manufacturers to build new plants, expand existing plants, renovate aging plants or add new machinery and equipment.

### Local Options

Tax benefits under P.A. 198 are granted by the legislative body of the city, township or village in which the facility will be located. After a public hearing, the process is started by the adoption of a resolution establishing a plant rehabilitation district for a rehabilitation project, or an industrial development district for a new project. A request for establishment of the district must be filed with the clerk prior to commencement of construction, alteration or installation of equipment.

Once the district is established, the company may apply for an exemption from property taxes (real and personal) for up to 12 years. Instead of the property tax, the firm pays an Industrial Facilities Tax (IFT) that reflects the abatement savings.

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

The IFT on new plant and/or machinery and equipment is computed at half the local property tax millage rate, plus the 6-mill statewide education tax. This amounts to a reduction in property taxes, approximately 50%.

For speculative building applications, the local unit must approve a resolution declaring a manufacturing facility a speculative building prior to the identification of prospective occupants in order to qualify for abatement. Initial construction and finishing costs would be eligible for a reduction in property taxed of about 50%.

### Application Process

Industrial property tax abatements must be approved at both the local and state levels. Applications must be filed locally, after the district has been established, and not later than six months after commencement of the project. Applications are filed, reviewed and approved locally (after a second public hearing), then reviewed by the State Tax Commission (STC) and the Michigan Economic Development Corporation (MEDC). STC then grants final approval and issues the exemption certificate. Locally approved applications (with attachments) must be received by STC no later than October 31 in order to receive consideration and action by December 31.

Applications to STC must include an agreement signed by the local unit and 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 by P.A. 198 has been made or promised in exchange for favorable consideration of the exemption application.

### **Eligible Facilities**

Industrial plants eligible for tax abatements 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. Recent legislation has expanded the definition of "industrial property" to include privately held electric generating plants until December 31, 2007, and high-technology activity as defined in the Michigan Economic Growth Authority (MEGA) Act: advanced computing, advanced materials, biotechnology, electronic device technology, engineering or laboratory testing, medical device technology, product research and development and advanced vehicles technology.

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. All equipment must be new or new to the Michigan Equipment Tax Rolls. Any buildings and equipment that existed prior to construction of a new facility are not exempt. If the project is 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 IFT. Similarly, any structures or equipment added after the completion of the project are fully taxable.

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

For more information about this program, contact Southwest Michigan First at 269.553.9588.