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

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. 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, medical device technology, product research and development and advanced vehicles technology. Until December 31, 2007, privately held electric generating plants are eligible for exemption.

ESTABLISHING THE DISTRICT

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. A public hearing is held and a resolution is adopted to approve the establishment of a Plant Rehabilitation District (for a rehabilitation project) or an Industrial Development District for a new project. A written request for establishing 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. Instead of the property tax, the firm pays an Industrial Facilities Tax (IFT) that reflects the abatement savings.

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 (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 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 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 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.

(MORE)

**INDUSTRIAL PROPERTY TAX ABATEMENT
(P.A. 198 of 1974, AS AMENDED)
CONTINUED**

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 IFT. 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

Industrial Personal Property IFT Treatment

Under the new 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 IFT expires. The remaining local mills will be abated 50% under P.A. 198.

Real and Non-Industrial Personal Property IFT Treatment

The IFT 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 IFT Treatment

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.

Speculative Building IFT 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 about 50%.

ADDENDUM

PERSONAL PROPERTY TAX RELIEF

In addition to the automatic reduction of 24 mills on industrial personal property, manufacturers will be allowed to claim a 35% tax credit on the new 2008 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 Michigan Economic Development Corporation (MEDC) Customer Assistance at 517.373.9808.