



INTERNAL MEMORANDUM

TO: Elaine A. Parson
FROM: Paul V. McCord
DATE: June 17, 2005
RE: Tool and Die Renaissance Recovery Zone – Reimbursement to Local School Districts

This memorandum is in response to your request for research regarding the abatement of certain local taxes under the Renaissance Zone Act (376 PA 1996). Specifically, the question was raised as to the abatement of local school taxes in Rochester, Michigan as a result of the introduction of a tool and die renaissance recovery zone within that jurisdiction by a local tooling manufacturer. In short all of the local school taxes, with the exception of the school debt levy will be abated. The local public school district, intermediate school district (ISD), community college and public library are made "whole" by operation of MCL 125.2692 which provides for state reimbursement of any revenues lost as a result of the renaissance zone program.

DISCUSSION

1. BACKGROUND

The Michigan Renaissance Zone Act (1996 PA 376) ("the Act") was first enacted in 1996 to encourage commercial, industrial, and residential improvements in economically distressed areas in the State. The Act has been amended several times since, including the introduction of tool and die renaissance recovery zones in January of 2004 by 2003 PA 266. Pursuant to this legislation, a total of 20 tool and die renaissance recovery zones are authorized. Such a zone has a duration of renaissance zone status for a period not exceeding 15 years. One of the more interesting features of this type of renaissance is that there are no restrictions on the size of the zone, nor does the Act require that a zone be located in one contiguous area, nor does it limit the number of tool and die businesses that may be included in a zone. In fact, a zone may consist of only one or more parcels of qualified tool and die business property. See MCL 125.2688d(1) and (2).

Most state and local taxes are abated in the Renaissance Zones. MCL 125.2689. The following state and local taxes are abated for businesses located in a Renaissance Zone:

A. PROPERTY TAXES

- Local Real Property Taxes - General property taxes on land and buildings are nearly 100% abated.
- Local Personal Property Taxes – These general property taxes are nearly 100% abated for the business' personal property that is located in the Renaissance Zone.¹
- 6- mill State Education Tax (SET) the state property tax levy for schools is 100% abated.

MCL 125.2689(2) and MCL 211.7ff(2).

B. STATE AND LOCAL TAXES

- Single Business Tax - A tax credit is allowed against the Michigan Single Business Tax (SBT) for business activity attributable to the Renaissance Zone.
- Local Income Tax - City corporate income taxes, if applicable in the zone, are 100% abated.
- Utility Users Tax -This only applies to residents or businesses in the City of Detroit. The city levies a 5% tax on utility bills. Businesses located within the Renaissance Zone are exempt from this tax.

MCL 125.2689(1).

The tax benefits are phased out at 25% increments during the Zone's final three years of existence.² See MCL 125.2686. ***Property owners are still responsible for***

¹ This includes personal property taxes. However, personal property is exempt if the property is located in the zone on the tax day (December 31) and was located there for at least 50% of the previous tax year. Owners must identify all personal property located in the zone on the tax day and must indicate if that personal property was located in that zone for 50% of the previous tax year. MCL 211.7ff(5). Personal property located in the zone on tax day that was located there for less than 50% of the previous tax year is exempt if the owner files an affidavit that the property will be located in that zone for at least 50% of the tax year for which the exemption is claimed. The affidavit must identify all personal property located in that zone on the tax day and identify the property for which the exemption is claimed. MCL 211.7ff(6).

² For example, in year 13 of a 15-year zone, businesses will pay 25% of taxes; 50% in year 14, 75% in year 15, and 100% of taxes after year 15.

property taxes levied to pay for local bonded indebtedness, school sinking funds, and special assessments. See MCL 211.7ff(2).

2. ILLUSTRATION

Michigan property taxes are levied as a millage rate. A mill equals one dollar per \$1,000 of assessed property; property is assessed at 50% of market value. A total non-homestead millage rate levied on businesses will include the 6-mill state education tax (SET), 18 mills for local schools, and all other levies of local taxing jurisdictions (county, city, community college, etc.). Suppose that a tooling manufacture located in Rochester, Michigan participates in a tool and die renaissance recovery zone. As mentioned previously, the Renaissance Zone waives all general mills levied by the local jurisdictions, as well as the SET. See MCL 211.7ff. Property owners are still responsible for property taxes levied to pay local bonded indebtedness and special assessments. *Id.*

Our local tooling manufacturer has assessable property worth (FMV) \$1 million or a \$500,000 assessed value. Assume also that the property's taxable value equals its assess value. The City of Rochester levies a total of 53.0574 mills annually on non-homestead property. As a result, our hypothetical tooling manufacture would pay approximately \$26,529 in property tax annually.

To illustrate the zone impact on property taxes, here is a hypothetical non-homestead millage rate:

Rochester	Abated	Non-Abated
County Operating Mills	4.6497	
City General Mills	13.7346	
Oak Intern. Sch.	3.3789	
Comm. College	1.5889	
School Operating	18.0000	
Local School Debt		5.1800
State Education (SET)	6.0000	
	Total Abated	Total Non-Abated
	31.1521	5.1800

As a result of the tool manufacturer's participation in the tool and die renaissance recovery zone, its local property tax burden would be reduced to \$2,590 annually (*i.e.*, the local school debt millage). Again, taxes are still due are those mandated by the federal government, local bond obligations, school sinking fund, or special

assessments. Companies are also not exempt from paying Michigan sales tax. It should also be noted that a taxpayer is not entitled to renaissance zone benefits if the taxpayer is delinquent in its state and local tax obligations on December 31 of the prior tax year. See MCL 125.2690(1).

3. STATE REIMBURSEMENT TO LOCAL SCHOOL DISTRICTS

When the statute was enacted, it was recognized that millage revenue necessary for a local school district to receive its foundation allowance would be reduced on the property in the district included in a renaissance zone. As illustrated above, local school districts and Intermediate school districts (ISDs) would lose revenue from their general operating millage, special education operating millage, and vocational education operating millage. Similarly, community colleges with property in the zone would lose revenue from their operating millage. MCL 125.2692(3). Therefore, the Act requires the State each year to reimburse local school districts and ISDs for revenues lost from taxes levied under the Revised School Code due to the property tax exemption. The State also must reimburse community college districts and public libraries for revenues lost from taxes levied under the General Property Tax Act. MCL 125.2692(3). Finally, the statute requires that the School Aid Fund, which is financed by the SET, be reimbursed and that the foundation allowance not be affected as a result of any revenue loss resulting from the operation of the Renaissance Zone Act.