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Proper Property Classification Can Cut Your Property Tax Liability

Last month Governor Granholm signed into law the Michigan Business Tax, which replaces the Single Business Tax. The new tax package includes a significant reduction in both industrial personal property taxes and commercial personal property taxes. Taxpayers should take advantage of the full benefit of these new tax reductions by making sure all property that can lawfully be classified as personal property is so classified and that all personal property that can lawfully be classified industrial is classified in that manner.

Beginning with the 2008 tax year (*i.e.*, next year), the tax rate for industrial personal property will be reduced by 24 mills and the rate for commercial personal property will be reduced by 12 mills. In addition to the millage reduction, the Michigan Business Tax (MBT) includes a refundable credit equal to 35% of the remaining property taxes paid on industrial personal property. (There are also special provisions for land line telephone companies and natural gas pipeline property.)

Neither the millage reductions nor the MBT credit negatively impacts local revenues. The millage reductions will be subtracted from school tax rates, but the local schools will be reimbursed by the State.

This new taxation system obviously makes the distinction between real and personal property very important. In the past, there have been instances where taxpayers and the local assessor just “agree” to treat certain assets as real or personal for the sake of convenience or consistency. Because, in each taxing jurisdiction, the tax rates applicable to real and personal property have been the same, there has been no difference in tax liability based on classification for property assessed at a given amount. However, the millage reduction and tax credit in the new law make

worthwhile diligent pursuit of assets properly classified as personal property.

A simple example is the taxation of apartments. Many apartment complexes are assessed solely as real property. However, some of the property contributing to the value of an apartment complex is personal property, which should be separately assessed as such.

Not only is the real versus personal issue more important than ever before, but the classification of property as industrial or commercial within the personal property category is critical. Based on statewide average tax rates, industrial personal property taxes will be reduced by 65%, while commercial personal property taxes will be reduced by only 23%. Utility personal property taxes will not be reduced (except for land line telephone companies and natural gas pipeline property).

If you have issues, concerns or questions regarding the classification of real property versus personal property or the classification of personal property as industrial or commercial, please let us know.

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For additional information, please contact:

- Michael B. Shapiro at 313.465.7622 or MShapiro@honigman.com.
- Stewart L. Mandell at 313.465.7420 or SMandell@honigman.com.

- Jeffrey A. Hyman at 313.465.7422 or JHyman@honigman.com.
- Mark A. Burstein at 313.465.7322 or MBurstein@honigman.com.
- Steven P. Schneider at 313.465.7544 or SSchneider@honigman.com.
- Jason S. Conti at 313.465.7340 or JConti@honigman.com.
- Daniel L. Stanley at 517.377.0714 or DStanley@honigman.com.
- Mark A. Hilpert at 517.377.0727 or MHilpert@honigman.com.
- Timothy J. Gies at 313.465.7200 or TGies@honigman.com.
- Leonard D. Kutschman at 313.465.7202 or LKutschman@honigman.com.
- Peter F. Arbour at 313.465.7204 or PArbour@honigman.com.

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