

In Michigan, Personal Property Classification Really Matters

Thanks to a reduced millage rate and a 35% refundable Michigan Business Tax Credit, Michigan taxpayers have discovered that classification matters. In fact, personal property classified as industrial receives an average 50% tax break when compared to the tax on commercial personal property. Prior to 2006 there was no difference in the net tax paid on industrial and commercial personal property, but for 2008 the legislature raised the stakes and passed a huge tax reduction for industrial personal property. Some assessors took steps to try and identify classification errors and reviewed the personal property for companies in their jurisdiction. Other jurisdictions opted to leave existing classifications intact, unless the property owner appealed. Needless to say, the number of classification appeals increased exponentially over prior years.

Due to the number of appeals and the lack of prior guidance, the factors influencing how personal property is classified is in a state of flux. Rules were put in place when classification did not matter and these rules remain in effect. For example, the State Tax Commission guidelines state that leased personal property is classified as commercial, regardless of use. Thus, a manufacturer that owns its personal property will pay one-half the tax of a company that leases the exact same property. Clearly, this is an inequitable outcome and should be addressed.

Most companies look to their operations as the initial determining factor as to their personal property classification. However, the law as passed does not specifically rely on usage as the sole determining factor. It may be one factor; however, there are companies that do not appear to have industrial personal property that will actually qualify for this beneficial treatment.

Paradigm Tax Group has assisted a number of its clients in classification appeals and they will benefit this tax year. If your company has personal property classified as commercial, the next opportunity to pursue the benefit will be in 2009. Please contact Bob Fuchs in our Detroit office at 810-844-0922 or email Bob at bfuchs@paradigmtax.com.