

Property Tax Abatement (PA 198)

Public Act 198 of 1974, as amended, is the primary tool local units of government use as an incentive for companies to renovate and expand aging manufacturing plants or to build new plants in Michigan. The legislative body of the city, township, or village in which the facility will be located grants the abatement, which reduces local property taxes by roughly 50% on new plants. In the case of a rehabilitation project, the obsolete SEV is frozen and the investment on improvements is 100% exempt from property taxes. Abatements cover both real and personal property and can run from one to twelve years, at the option of the local unit. Since it was passed in 1974, Act 198 has accounted for over 16,500 projects, representing 1.3 million jobs retained, 500,000 jobs created, and \$81 billion invested.

Who is Eligible to Apply?

Eligible businesses include industrial plants 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. Also added to the industrial property definition is qualified high-technology business 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. Until December 31, 2007, privately held electric generating plants are eligible for exemption. Every city, township and village in Michigan is eligible to grant tax abatements under Act 198.

How Does It Work?

The local unit may, by resolution, exempt real and/or personal property for eligible businesses. 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). Instead of the property tax, the firm pays an Industrial Facilities Tax (IFT) that reflects the abatement savings. Industrial property tax abatements must be approved at both the local and state levels.

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 rehabilitation, the value of any preexisting 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.

What Is the Process?

1. Before starting the project the eligible business files a written request with the clerk of the local unit to establish an Industrial Development District or Plant Rehabilitation District. The program allows a local unit to adopt a resolution terminating a Plant Rehabilitation District or an Industrial Development District if there are not industrial facilities exemption certificates in effect within the Plant Rehabilitation District or the Industrial Development District.
2. After a public hearing, the local unit adopts a resolution establishing the district.
3. The eligible business files an application (Michigan Department of Treasury form L 4380) with the clerk of the local unit.
4. The local unit adopts a resolution approving the application and determines the number of years (1-12). The local unit and the business negotiate the length of abatement as well as terms and conditions which must be met during the term of the abatement.
5. The application and all attachments are filed with the State Tax Commission (STC).
6. The STC and MEDC review the application to determine compliance with the statute.
7. Upon approval, the STC issues the Industrial Facilities Exemption Certificate.

Why Would a Local Unit of Government Offer an Industrial Property Tax Abatement?

1. To promote economic development.
2. To preserve current local tax base and provide for future tax revenue increases.
3. To attract new businesses and to target the type of businesses they may want to attract.
4. To compete for jobs with other states and countries that have lower personal property taxes or none at all.
5. To reward a company who has been a good corporate citizen.
6. Annual salaries of the new and retained jobs flow into the local community.
7. Other business factors may dictate where a company locates, but tax abatement is one of the key considerations for a company to remain competitive, continue in business and maintain their local employment.

Supporting Statute

[Public Act 198 of 1974 - Property Tax Abatement \(Plant Rehabilitation and Industrial Development Districts\)](#)