


Personal Property Trends, Alternative Energy Taxes, and Replacement Tax Options for Michigan

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PSC

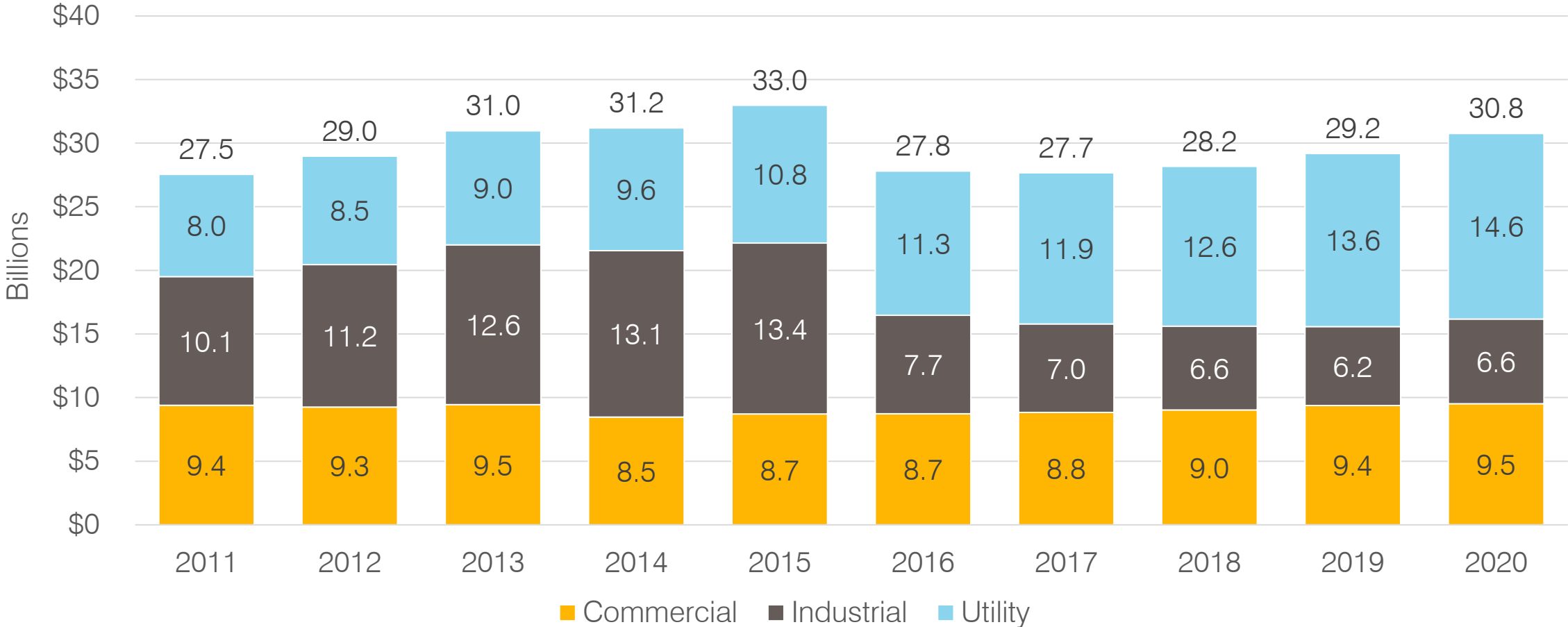
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Today's Presentation

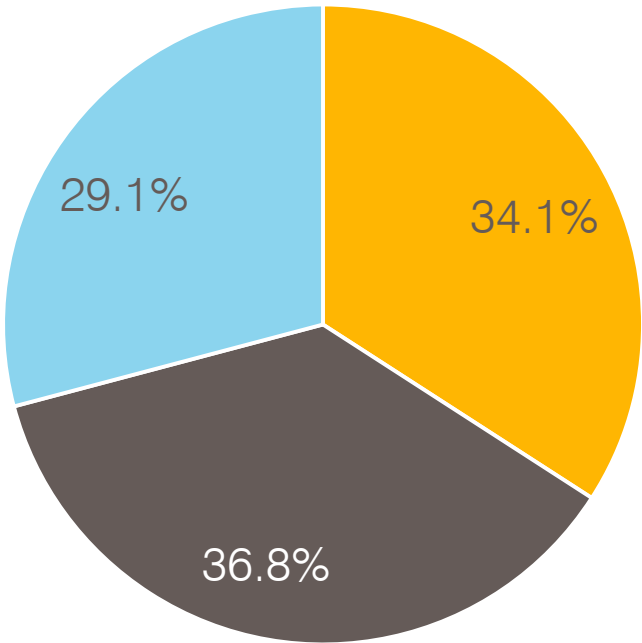
- Personal property tax trends over past decade—taxable valuation and revenue
- Alternative energy personal property—solar and wind
- Replacement tax options—sales tax on services and utility sales taxes
- Policy implications

State of Michigan Personal Property Valuation



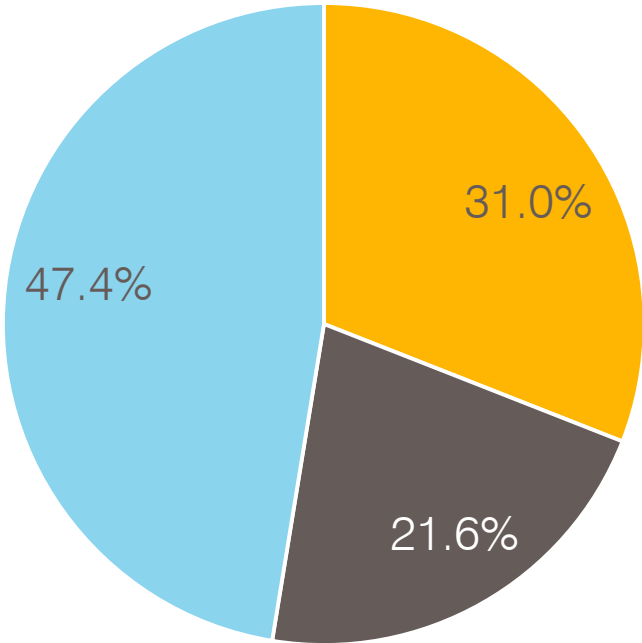
State of Michigan Personal Property Valuation by Class

2011



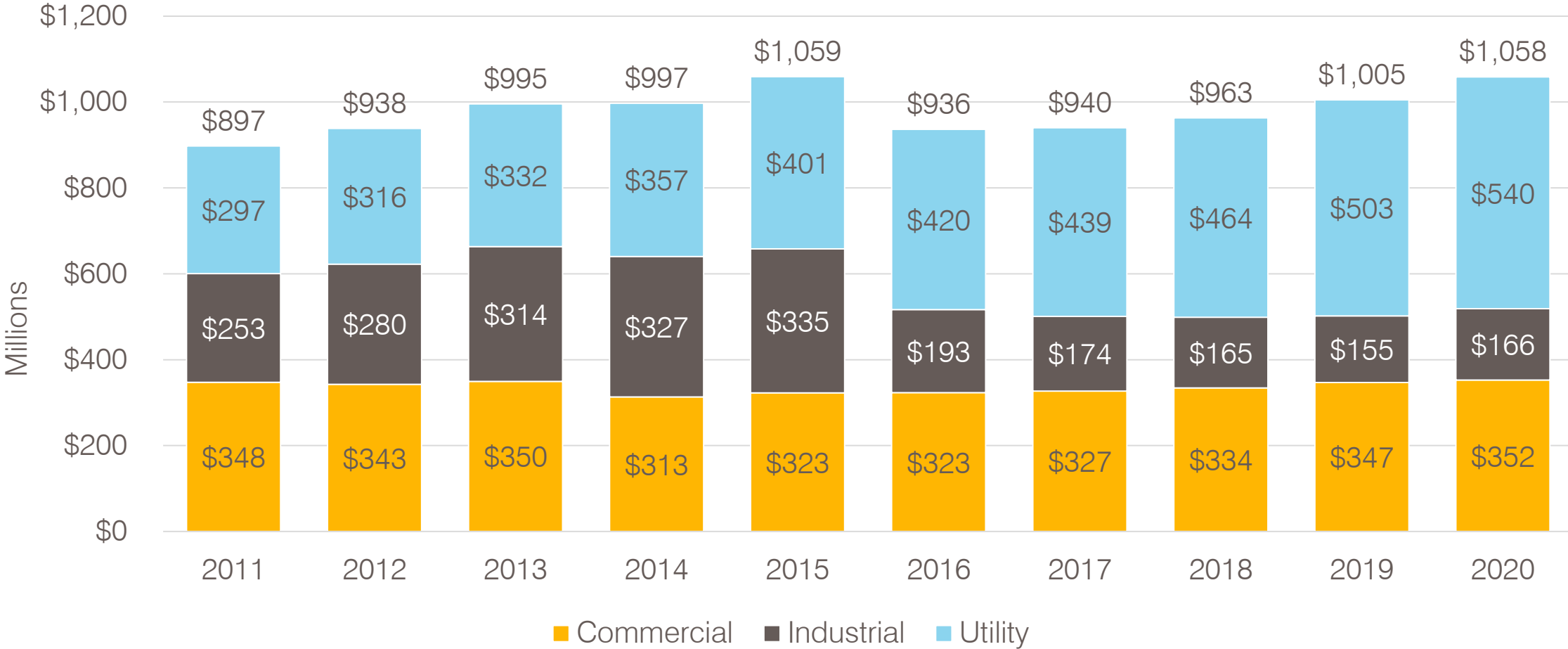
Commercial Industrial Utility

2020



Commercial Industrial Utility

State of Michigan Total Tax Revenue from Personal Property



Alternative Energy Personal Property Background

- Alternative energy equipment, such as solar arrays and wind turbines, is subject to personal property taxation in Michigan
- Senate Bill 1105, the Renewable Energy Facilities Payment in Lieu of Tax Act, was vetoed by Governor Whitmer at the end of 2020
- In 2019, solar represented less than one-tenth of 1 percent and wind represented 5 percent of net electrical energy production in Michigan
- As a percentage of renewable energy generation, wind and solar represent nearly 70 percent of total renewable production, hydroelectric represents 19 percent, and other renewables comprise the balance

Solar Power Personal Property

	All Solar Projects	Excludes Exempted and Unassessed Projects
Total taxable value	\$68.1 million	\$65.1 million
Taxable value per MW	\$574,300	\$625,300
Total tax revenue	\$2.1 million	\$2.0 million
2020 tax revenue per MW	\$17,600	\$18,800

Future of Solar Power Personal Property

- Solar power is projected to grow substantially in the next few years, estimates range from 1,800 MW to 7,000 MW
- Using an estimated range of \$5,000 to \$15,000 per MW of tax revenue, solar power could result in additional annual tax revenue of approximately \$9 million to \$105 million across the state
- These estimates depend on actual solar expansion, valuation methodology, and depreciation

Wind Power Personal Property

Wind Projects

Total taxable value	\$1.56 billion
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Taxable value per MW	\$587,000
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Total tax revenue	\$33 million
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Tax revenue per MW	\$13,900
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Impact of Wind and Solar Revenue Loss

- The impact of revenue streams on the jurisdictions that collect solar and wind can be significant, as illustrated in Tuscola County:
 - The county and its jurisdictions have collected nearly \$37 million in tax revenue from wind since 2013
 - In 2020, personal property was 27 percent of all taxable value in the county, with wind being 67 percent of that value
- As the shift from fossil fuels to renewable energy continues, the expansion of solar power generation could increase the current taxable value by a factor of 15 to 60 times in the next five years
- Increases in solar and wind taxes will be partially offset by the relatively rapid depreciation of these assets, typically from full value to 23 percent for solar and 30 percent for wind over the span of a decade
- Property used for alternative energy, whether wind or solar, could limit the property's land use or development potential and thus impact long-term property values

Replacement Tax Options

- PSC explored three options:
 - Expanding Michigan's sales tax to the service industry
 - Expanding the current residential sales tax on utilities from 4 percent to 6 percent
 - Eliminating the utility sales tax exemption for industrial processing

Sales Tax on Services

- **The economy has shifted to the service industry:**
 - In 1990, goods-producing industries comprised around 25 percent of total nonfarm jobs in the state
 - In 2019, those same type of jobs represented only 18 percent of total nonfarm jobs
 - During the same time period, service-providing jobs shifted from 75 percent to 82 percent
- **Methodology:**
 - Utilized methodology from the Center on Budget and Policy Priorities (CBPP) in its 2012 report, Using Economic Census Data to Estimate the Revenue Impact of Taxing Services
 - This methodology relies on North American Industry Classification System (NAICS) and North American Product Classification System (NAPCS) datasets to analyze spending on specific services within industries at the state level
 - Approach focuses on services by individuals and, to the extent possible, excludes business-to-business transactions

Estimated Michigan Service Taxes by Industry

Service Tax - Total Estimated Revenue (in millions of dollars)

Category	6.0%	5.5%	5.0%	4.5%	4.0%
Admissions and amusements	\$47	\$43	\$40	\$36	\$32
Automotive services	\$45	\$41	\$38	\$34	\$31
Business services	\$325	\$300	\$274	\$248	\$221
Computer	\$29	\$27	\$24	\$22	\$20
Fabrication, installation, and repair services	\$26	\$24	\$22	\$19	\$17
Finance, insurance and real estate	\$214	\$197	\$180	\$163	\$146
Personal services	\$122	\$112	\$103	\$93	\$83
Professional services	\$1,723	\$1,588	\$1,451	\$1,313	\$1,173
Storage	\$88	\$81	\$74	\$67	\$60
Total	\$2,619	\$2,413	\$2,206	\$1,995	\$1,783



Service Tax Categories

Admissions and Amusements

- Admission to amusement parks and rides
- Admission to circuses and fairs
- Admission to cultural events
- Admission to live sports events
- Bowling alleys
- Coin operated video games
- Membership fees in private clubs
- Racetracks

Automotive Services

- Automotive service
- Automotive road service and towing services
- Labor charges on repairs to motor vehicles
- Parking lots and garages

Business Services

- Advertising—billboards
- Advertising—magazines and newspapers
- Advertising—radio and television, local, regional and national
- Armored car services
- Bail bond fees
- Check and debt collection
- Credit information, credit bureaus
- Employment agencies
- Interior design and decorating
- Lobbying and consulting
- Maintenance and janitorial services
- Marketing
- Packing and crating
- Pest extermination and control services

- Private investigation services
- Process server fees
- Public relations and management consulting
- Secretarial and court reporting services
- Security services
- Telemarketing services
- Telephone answering services
- Test laboratories (excluding medical)
- Window cleaning

Computer

- Books—downloaded
- Information services
- Internet service providers—dialup
- Software—custom program and modification services

Fabrication, Installation, and Repair Services

- Labor charges on repair of aircraft
- Labor charges on repairs delivered under warranty
- Labor on radio/television repairs, other electronic equipment

Personal Services

- Carpet and upholstery cleaning
- Dating services
- Fishing and hunting guide services
- Hair care services
- Income from funeral services
- Laundry and garment alteration and repair
- Massage services
- Memberships at fitness and recreation centers

- Overnight recreational camps, including camp tuition and fees
- Personal instruction (dance, golf, tennis, etc.)
- Pet grooming
- Shoe repair
- Swimming pool cleaning and maintenance
- Tanning services
- Tax return preparation

Professional Services

- Accounting and bookkeeping
- Architectural services
- Chartered flights
- Dental services
- Engineering services
- Land surveying

- Landscaping services
- Legal services
- Medical test laboratories
- Nursing services out-of-hospital
- Physician services
- Seismograph and geophysical services
- Veterinary services (both large and small animal)

Storage

Cold storage

Marina service (docking, storage, cleaning, and repair)

Marine towing service

Mini- and self-storage rental

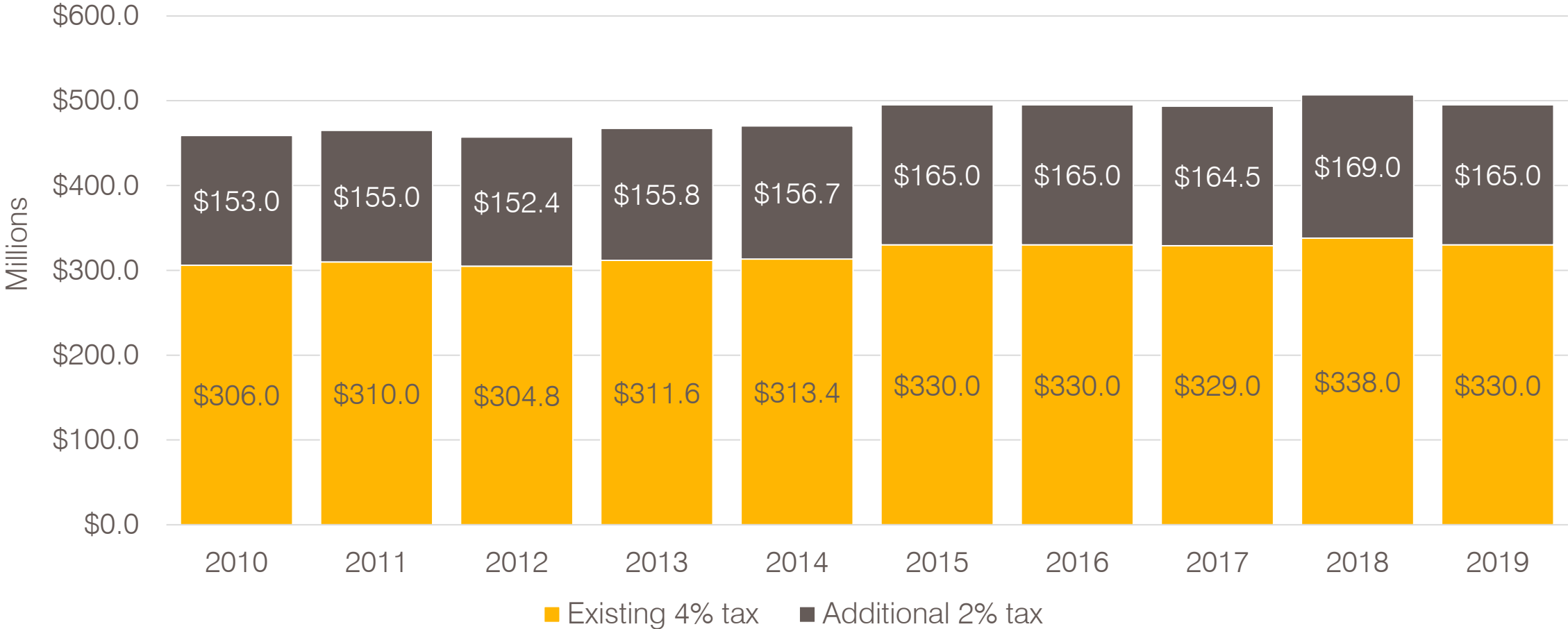
Storage services for goods

Travel agent services

Service Taxes in the Midwest

	Illinois	Indiana	Michigan	Minnesota	Ohio	Pennsylvania	Wisconsin
Utilities	12	12	12	15	8	9	11
Personal services	2	4	2	8	11	5	10
Business services	1	3	7	11	14	16	8
Computer services	1	1	1	0	5	4	3
Online services	1	5	1	6	8	8	7
Admissions/amusements	9	3	1	12	13	2	14
Professional services	0	0	0	0	0	0	0
Fabrication, repair, and installation	1	1	1	6	11	14	13
Other services	2	7	2	9	16	9	16
Total	29	36	27	67	86	67	82

Residential Sales Tax on Utilities, 2010–2019



Industrial Sales Tax on Utilities

- Utility taxes are also applied against commercial users, but at the current 6 percent rate
- Industrial processing activities are currently exempt from the utility tax
- Expanding the sales tax to industrial consumption has the potential to raise approximately \$108–\$118 million of additional revenue if subject to a 6 percent sales tax

Policy Implications

- Revenue impacts of personal property vary significantly across the state
- Shifting administrative burden from local governments to the State
- Business-to-business taxation can be very complicated
- Public support is critical but significantly challenging to generate

Questions



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