Lessons from Business Personal Property Tax Reform in Michigan

Last week, the Indiana House of Representatives passed HB1002, a sweeping package of tax cuts ultimately worth over $1.3 billion annually. The plan faces an uncertain path in the Senate, where fiscal leaders are skeptical about making tax policy in a non-budget writing session.

The business community and economic developers are watching carefully, as HB1002 includes sought-after tax relief on capital investments: More than 15% of Indiana's local property tax collections are from business personal property, mostly industrial equipment. Business personal property taxes (PPT) are based on acquisition costs adjusted for depreciation, but only down to a "floor" set at 30% of original value.

To manufacturers and other business interests, PPT is already a form of double-taxation (after paying sales taxes on new personal property) and the 30% floor keeps tax bills artificially high as equipment ages towards obsolescence. But for local governments, losing the floor cuts into revenue capacity that barely keeps up with costs.

As lawmakers debate the issue, Michigan is poised to complete a decade-long process to restructure and replace its PPT system by 2023. Our neighbors to the north grappled with similar challenges balancing manufacturing competitiveness and local budget priorities.

Small business relief:
The PPT burden and cost of compliance (self-assessing equipment year after year) is clearly more onerous to small businesses. Michigan started with a complete exemption for taxpayers with total personal property valued at less than $80,000 for tax year 2014.

Indiana has reached the same point in multiple stages: The General Assembly set an PPT threshold for assessments less than $20,000 in 2016, raised it to $40,000 in 2019 and $80,000 last year (starting with taxes payable in 2023). This excludes more than 150,000 PPT returns filed mostly by smaller manufacturers and agricultural operations.

Local revenue replacement:
Indiana pursued this *de minimis* floor without providing revenue replacement for local governments, beyond the option of raising local income tax rates.

In contrast, Michigan integrated local support into PPT reforms from the start. Half the proceeds from an existing statewide use tax were redirected to local distributions and a new PPT replacement tax (the Essential Services Assessment) was levied on larger companies to backfill state-level losses, support local revenue-sharing and economic development.

HB1002 does protect local government from the impact of lowering the floor for current equipment: Businesses claim the difference between 30% and actual depreciation on existing PPT assessments as a state tax credit, so local tax bills are untouched by the adjustment.

But the bill is silent on losses from lowering the floor for new equipment, which would begin affecting tax collections for cities, counties and school corporations a few years into the future.

Phasing in exemptions:
Michigan also treated new and existing personal property differently. The state exempted older (pre-2005) and newly-purchased equipment (2013 and after) held by larger businesses first, starting in 2016. More recently-acquired property (2006-2012) was added each tax year through 2023.

HB1002 creates a similar runway for lowering the 30% floor, gradually impacting local budgets as personal property acquired in 2022 ages past the floor. The state tax credit for existing personal property also ends after 2035; once current property is taken out of service altogether, the depreciation floor is effectively eliminated.

Looking at the big picture:
Both Indiana's (HB1002) and Michigan's PPT plans focus on small business exemptions, tax simplification and gradually reducing the cost of investment. What did Michigan gain with its head start on these reforms? Indiana actually added more manufacturing jobs from 2012 through 2020 (keeping our top spot in manufacturing employment per capita) and outgrew Michigan in manufacturing GDP. Clearly, we're already capitalizing on a solid business climate.

This doesn't mean PPT relief wouldn't be a boon to Indiana manufacturing, or that the 30% floor shouldn't be scrutinized as an anti-investment blind spot in our tax code. But it's just one part of a bigger picture: The Council on State Taxation (COST) estimates that businesses pay 44 cents for every dollar in state and local taxes collected across the nation. Indiana and Michigan both offer a more business-friendly ratio (39 and 35 cents, respectively). Should we be aiming lower?

Taxing tradeoffs:
Finally, HB1002 offers no equivalent to Michigan's local tax redistribution, only an expiring credit covering PPT relief for existing equipment. There's also no Essential Services Assessment or alternative for replacing state and local revenue: State government sees a general fund impact (from the offsetting tax credits) approaching $400 million a year over the next decade, and local revenues are affected into the 2030s, potentially by $200 million a year after 2035.

One more lesson from Michigan: Even though the state has a constitutional revenue-sharing obligation, local governments have cried foul over shifting formulas that they say shortchange their budgets. After more than a decade under Indiana's property tax caps, it's also no wonder county, municipal and school officials are also wary of any push to further limit their tax base.

With a surplus growing towards $5 billion this year, Indiana can absorb the PPT cuts in the near term. Acting now could even spur economic development and boost future revenues. But the debate over HB1002 should acknowledge state budget commitments that are also part of a pro-growth business climate – education, workforce development, infrastructure – and include stronger safeguards for local public services and quality of life investments that attract people, employers and investment to communities across the state.