

# Industrial Facilities Exemption

## Best Practices





# Industrial Facilities Tax Exemption Best Practices

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## Introduction

The Industrial Facilities Exemption (also known as PA 198, IFT, or Industrial Facilities Tax) remains one of the most commonly-used economic development tools available to local governments in Michigan. This tool provides a 50 percent property tax abatement on new real and personal property investments for up to 12 years. Only certain types of businesses are eligible to receive the exemption, including most industrial firms and high tech companies. Local governments have discretion on whether to grant abatements, and the length of the abatements.

Many local governments around Michigan have developed policies related to the term and length of property tax abatements. Some of these policies have been collected to develop guidelines related to determining the length of property tax abatements.

## Why Consider This Now?

At the end of 2012, the Michigan Legislature passed a phase-out of the industrial personal property tax in Michigan, which could significantly affect the number of PA 198's granted in the

future. However, real property tax abatements will remain an option for local governments, and community partners have indicated a specific interest in potentially updating their economic development incentive policies. This memo serves as a review of PA 198 policies found throughout Michigan in an effort to provide best practices to local community partners.

## General Procedures for PA 198

Industrial Facilities Exemptions must be approved at both the local and state levels. Here is a general step-by-step application process:

1. An application for the establishment of an Industrial Development District (for a new project) or a Plant Rehabilitation District (for a rehabilitation project) must be submitted to the legislative body of the city, township, or village in which the investment will be located. The local governmental unit must review the application, establish district boundaries, and schedule a public hearing of all owners of real property within the proposed district, published or posted for

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- residents and taxpayers, consistent with established local practice.
2. The public hearing is held with the participants detailed and a resolution must be adopted by the local governmental unit to approve the establishment of the district.
  3. Once a district is established, the company may apply for the abatement on property taxes for up to 12 years and up to 50% off taxes. A public hearing is held with the participants detailed and a resolution must be adopted by the local governmental unit to approve the abatement application.
  4. The application is then filed and forwarded to the State Tax Commission (STC) and Michigan Economic Development Corporation (MEDC). The STC sends issuance or denial of certification. Once approved, the firm pays an Industrial Facilities Exemption (IFE), instead of the property tax, that reflects the abatement savings.
  5. Local units have the discretion to structure guidelines for

evaluating applications for establishing Industrial Development Districts and Plant Rehabilitation Districts and approving Property Tax Abatements. General guidelines and best practices to assist municipalities in constructing their own property tax abatement guidelines are below.

## Best Practices for Industrial Property Tax Abatement Guidelines

1. Policies should be based on the factors we want to encourage with economic development, namely jobs and investment. We suggest developing a scoring sheet that is based on these factors alone. Factors unrelated to jobs and investment are important, however, measuring these factors can be cumbersome and may dilute the economic development focus of the incentive. When possible, the scoring should be based on objective factors (like amount of investment), and rely less on subjective statements (like if the business investment would “fit in” to the rest of the community).

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Value of Investment	SAMPLE IFT POLICY								
	Number of New/Retained Full-Time Jobs Resulting from Construction or Long-Term Lease								
	1 to 3	4 to 7	8 to 12	13 to 17	18 to 25	26 to 30	31 to 35	36 to 40	41+
\$500,000 - \$550,000	4	5	6	7	8	9	10	11	12
\$550,001 - \$1,000,000	5	6	7	8	9	10	11	12	12
\$1,000,001 - \$1,450,000	6	7	8	9	10	11	12	12	12
\$1,450,001 - \$1,725,000	7	8	9	10	11	12	12	12	12
\$1,725,001 - \$2,075,000	8	9	10	11	12	12	12	12	12
\$2,075,001 - \$2,350,000	9	10	11	12	12	12	12	12	12
\$2,350,001 - \$2,575,000	10	11	12	12	12	12	12	12	12
\$2,575,001 - \$3,000,000	11	12	12	12	12	12	12	12	12
\$3,000,001 +	12	12	12	12	12	12	12	12	12

As an example, we have attached the City of Novi's point system based on these factors. The length of the abatement is determined on the number of jobs retained, number of jobs created, the amount of private personal and real property investment. See Novi's scoring matrix above.

- Policies should be as similar as possible throughout the region to limit poaching and gamesmanship. Streamlining PA 198 policies across the region will limit community-by-community poaching and minimize opportunity for companies to use an incentive from one community over an incentive from another. To ensure this, your policy should be as regionally applicable as possible. For example,

local municipalities in Grand Traverse County instituted a standardized policy that was used throughout the region.

- Your policy and documents should be simple and easy to understand by novice users. Economic development incentives are often used by businesses that are new to the community; making documents user-friendly will help to ensure that new businesses will land in your community. For example, the City of Sterling Heights revised and produced a new policy explaining Industrial Facilities Exemptions, how eligibility is determined, and the application process. Here is a section from the new policy that demonstrates the simplicity of language used:

*The first requirement that must be fulfilled for a business to receive a tax abatement is that all qualified industrial property, whether real or personal, must be located within an existing Industrial Development District (IDD). The property's owner must file the request for the establishment of an IDD for a proposed new or replacement facility before construction has commenced or before personal property assets have begun to be installed. The City Assessor will confirm whether an IDD has been established for any parcel in the city.*

- Your policy should be easily accessible online. This allows businesses and economic development practitioners to find materials quickly and efficiently.

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5. Repayment provisions and termination of abatements should be simple and clearly defined in your policy.

Repayment provisions and termination of abatements should be implemented when companies leave the municipality, or if job and investment requirements are not met. However, some discretion should be available for local boards to consider extenuating circumstances such as bankruptcy, economic recession, or other factors.

**Explore the following links to see examples of policies and procedures found throughout the state:**

[Novi](#)  
[Battle Creek](#)  
[Livonia](#)  
[Brighton Township](#)  
[East Bay Charter Township](#)  
[Howell \(Scoring Sheet\)](#)



