



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

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DATE: July 17, 2003

TO: Assessors
Equalization Directors

FROM: State Tax Commission (STC)

SUBJECT: Requirement in 2004 to Separately State the State Equalized Value and the Taxable Value of Leasehold Improvements (LHI) on the Assessment Notice and the Assessment Roll.

The State Tax Commission has recently received several inquiries regarding the requirement to separately state the State Equalized Value and the Taxable Value of Leasehold Improvements (LHI) on the Assessment Notice and the Assessment Roll STARTING IN 2004. This is required by Public Act (P.A.) 620 of 2002 and was discussed by the Commission in STC Bulletin 1 of 2003.

The inquiries received by the Commission center around the question of whether P.A. 620 of 2002 requires that a separate parcel code be assigned to Leasehold Improvements. It is the opinion of the State Tax Commission, after consultation with its legal counsel, that P.A. 620 of 2002 DOES NOT require that a separate parcel code be established for Leasehold Improvements. It is also the position of the Commission that PA 620 of 2002 does not prevent an assessor from establishing a separate parcel code for Leasehold Improvements (LHI). The following paragraphs discuss each of these alternatives.

1) NO SEPARATE PARCEL CODES FOR LEASEHOLD IMPROVEMENTS.

If an assessor decides NOT to establish separate parcel codes for Leasehold Improvements, it is still necessary to separately calculate and display the State Equalized Value and the Taxable Value for Leasehold Improvements on the Assessment Roll and on the Assessment Notice. However, the value of Leasehold Improvements is also included in the value of the entire parcel and a single bill is generated for the personal property account which includes the Leasehold Improvements. In this situation, the separate values for Leasehold Improvements are displayed on the Assessment Roll and the Assessment Notice FOR INFORMATIONAL PURPOSES ONLY as required by P.A. 620 of 2002. The State Tax Commission will be changing its 2004 model assessment notice to include a spot for listing the State Equalized Value and Taxable Value of LHI for informational purposes as required by P.A. 620 of 2000.

2) ESTABLISHING SEPARATE PARCEL CODES FOR LEASEHOLD IMPROVEMENTS.

If an assessor decides to establish separate parcel codes for Leasehold Improvements, the result will be that every taxpayer in that unit that has leasehold improvements will have an additional tax bill, starting in 2004. This separate parcel must be clearly labeled on the assessment roll to avoid confusion by the taxpayer. The description for the separate parcel should state that the parcel is for Leasehold Improvements and should include the location of the Leasehold Improvements. It is also recommended that the separate parcel for Leasehold Improvements appear on the assessment roll immediately after the parcel code which includes the rest of the taxpayer's personal property. It is also recommended that the description for the Leasehold Improvement parcel refer to the parcel code which includes the rest of the taxpayer's personal property and vice versa. If separate parcel codes are established for LHI, there will also be an additional separate Assessment Notice for each taxpayer that has Leasehold Improvements. A revision to the Assessment Notice will not be needed by assessors who establish separate parcel codes for Leasehold Improvements because LHI will have their own separate Assessment Notices. If an assessor considers establishing separate parcel codes for Leasehold Improvements, the Commission recommends that the assessor **consult with the local unit treasurer** to discuss possible collection problems which may result.