

# ESA Topics: IFT (P.A. 198) Property Reporting and Treatment



How IFT (P.A. 198) and P.A. 328 (MCL 211.9f) property is treated with the changes to the personal property tax is one of the more complex and confusing parts of the statutory changes. This ESA Topic will focus on how IFT property is treated and will provide some basic examples that we hope will allow taxpayers and assessors to gain a better understanding of how these properties should be reported and how they will be treated for property taxation purposes. A future ESA Topic will focus on the P.A. 328 property.

First and most importantly, it is critical that taxpayers carefully read the instructions for Form 5278 and particularly for Part 3 of the Statement. Taxpayers must ensure that when filling out Part 3 of the Statement, they do not inadvertently report costs in both Section 1 and Section 2. In Part 3, only one section may be filled out for a particular parcel. Questions 1 through 7 on Part 3 guide you to which section you will be using to report your personal property.

Discussions regarding the treatment of IFT property begins with the taxpayer answering two questions:

1. Is my property subject to an IFT Certificate that was in effect before January 1, 2013?
2. Is my property subject to an IFT Certificate which was in effect on or after December 31, 2012 and therefore was extended under the provisions of MCL 207.561a?

Answering these two questions will guide you to understanding how your property is reported and treated under the personal property tax changes.

Simply put, if you can answer yes to question 1, then property exempt under MCL 211.9m or MCL 211.9n will pay the ESA Specific Tax at  $\frac{1}{2}$  the Fair Market Value at the time of acquisition by the first owner (Acquisition Cost) until that IFT Certificate expires. If you answer yes to question 2, your certificate will be extended and not expire until all the property covered under that IFT certificate is exempt under MCL 211.9m and MCL 211.9n. Once the certificate expires, then the property will pay ESA on the full Acquisition Cost.

### **Example 1: (Extended IFT)**

A six year IFT Certificate was approved in 2007 and in effect for 2008 through 2013 (expires 12/30/13).

The personal property under this certificate was placed in service in 2007 and is Eligible Manufacturing Personal Property (EMPP). As a reminder, personal property that was first placed in service in 2007 will become exempt under MCL 211.9n in 2018.

We will begin with our two simple questions:

1. Is my property subject to an IFT Certificate that was in effect before January 1, 2013?  
**Yes**
2. Is my property subject to an IFT Certificate which was in effect on or after December 31, 2012 and, therefore, was extended under the provisions of MCL 207.561a? **Yes**

Because the answer to question 2 was Yes, in 2016 and in 2017 the taxpayer, when filling out Form 5278, will check Box 6 as yes on Part 3 of the Form and the IFT Certificate now has an extended term of 2014, 2015, 2016 and 2017 under the provisions of MCL 207.561a.

During the extended term, the property remains subject to the IFT tax and will be reported in the appropriate table in Part 2 of the Form, but will also be subject to the ESA Specific Tax and will also have to be reported in Part 3, Section 2 of the Form.

However, because the answer to question 1 was Yes, in 2016 and also in 2017, the personal property will be subject to ESA at ½ the Fair Market Value at the time of acquisition by the first owner (MCL 211.1053a). Note: The Fair Market Value at the time of acquisition by the first owner should be reported at 100% on Form 5278; the ESA Specific Tax at ½ the Fair Market Value at the time of acquisition by the first owner (Acquisition Cost) will be calculated on the statement subsequently filed with the Department of Treasury, not on Form 5278.

Since the property becomes exempt under MCL 211.9n in 2018 the property is now subject to the full ESA Specific Tax and reported on Form 5278 on Part 3, Section 1.

### **Example 2: (Non Extended IFT)**

A twelve year IFT Certificate was approved in 2009 and in effect for 2010 through 2021 (expires 12/30/21).

The personal property was placed in service in 2009 and is Eligible Manufacturing Personal Property (EMPP). As a reminder, personal property that was first placed in service in 2009 will become exempt under MCL 211.9n in 2020.

Going back to our two simple questions:

1. Is my property subject to an IFT Certificate that was in effect before January 1, 2013?  
**Yes**

2. Is my property subject to an IFT Certificate which was in effect on or after December 31, 2012 and, therefore, was extended under the provisions of MCL 207.561a? **No**

The answer to question 2 is No, because the personal property covered under the IFT Certificate will become exempt under MCL 211.9n before the certificate was scheduled to expire. For 2016 through 2019 the personal property will be subject to the IFT Specific Tax and will be reported on Form 5278 Part 2 only and it will not pay ESA Specific Tax.

However, because the answer to question 1 was Yes, the taxpayer will check Box 4 on Form 5278 as Yes and will report the property in Part 3, Section 2 starting in 2020. In 2020 and in 2021 the personal property is subject to the ESA Specific Tax at ½ the Fair Market Value at the time of acquisition by the first owner. **Note: In this case the assessor must retain the IFT parcel number until 2022 and not move the property to the Ad Valorem parcel for purposes of ESA reporting.**

Since the property is exempt under MCL 211.9m and MCL 211.9n and the IFT Certificate that would have been in effect for the parcel has expired, in 2022 the property is subject to the full ESA Specific Tax and reported on Form 5278 on Part 3, Section 1.

### **Example 3: (New IFT)**

A six year IFT Certificate was approved in 2013 and in effect for 2014 through 2019 (expires 12/30/19).

The personal property was placed in service in 2013 and is Eligible Manufacturing Personal Property (EMPP). As a reminder, personal property that was first placed in service in 2013 will become exempt under MCL 211.9m in 2016.

Going back to our two simple questions:

1. Is my property subject to an IFT Certificate that was in effect before January 1, 2013?  
**No**
2. Is my property subject to an IFT Certificate which was in effect on or after December 31, 2012 and, therefore, was extended under the provisions of MCL 207.561a? **No**

Because in 2016, EMPP first placed in service after 2012 is exempt, the IFT Certificate expires and the personal property is reported on Form 5278 Part 3, Section 1.

Because the answer to question 1 was No, the personal property is subject to the ESA Specific Tax at the full Acquisition Cost.

### **Example 4: (Extended IFT – A Complex Example)**

An IFT Certificate was approved in 2005 and in effect for 2006 through 2017 (expires 12/30/17).

The personal property was placed in service in 2005, 2006, 2007, 2008 and 2009 and is Eligible Manufacturing Personal Property (EMPP). As a reminder, personal property that was first

placed in service in 2005 will become exempt under MCL 211.9m in 2016, personal property that was first placed in service in 2006 will become exempt in 2017, personal property first placed in service in 2007 will become exempt in 2018, personal property first placed in service in 2008 will become exempt in 2019 and personal property first placed in service in 2009 will become exempt in 2020.

We will begin with our two simple questions:

1. Is my property subject to an IFT Certificate that was in effect before January 1, 2013?  
**Yes**
2. Is my property subject to an IFT Certificate which was in effect on or after December 31, 2012 and, therefore, was extended under the provisions of MCL 207.561a? **Yes**

Because the answer to question 2 was Yes, the IFT Certificate has an extended term of 2017, 2018 and 2019 under the provisions of MCL 207.561a. The taxpayer will check Box 6 as yes on Part 3 of Form 5278.

Because this is a complex example, we will go through the reporting year by year:

In 2016, the taxpayer will report the property placed in service in 2005 on Part 3 Section 2 of the form. Because the answer to question 1 was yes, the personal property will be subject to ESA at  $\frac{1}{2}$  the Fair Market Value at the time of acquisition by the first owner. The taxpayer will report the property placed in service in 2006, 2007, 2008 and 2009 in Part 2 of Form 5278 and this property will be subject to the IFT Specific Tax only.

In 2017, the taxpayer will report the property placed in service in 2005 and 2006 on Part 3, Section 2 of the form. Because the answer to question 1 was Yes, the personal property will be subject to ESA at  $\frac{1}{2}$  the Fair Market Value at the time of acquisition by the first owner. The taxpayer will report the property placed in service in 2007, 2008 and 2009 in Part 2 of Form 5278 and this property will be subject to the IFT Specific Tax only.

In 2018, the taxpayer will report the property placed in service in 2005, 2006, 2007, 2008 and 2009 on Part 3, Section 2 of the form. Because the answer to question 1 was Yes, the personal property will be subject to ESA at  $\frac{1}{2}$  the Fair Market Value at the time of acquisition by the first owner. The taxpayer will also report the property placed in service in 2008 and 2009 in Part 2 of Form 5278 and this property will also be subject to the IFT Specific Tax.

In 2019, the taxpayer will report the property placed in service in 2005, 2006, 2007, 2008 and 2009 on Part 3, Section 2 of the form. Because the answer to question 1 was Yes, the personal property will be subject to ESA at  $\frac{1}{2}$  the Fair Market Value at the time of acquisition by the first owner. The taxpayer will also report the property placed in service in 2009 in Part 2 of Form 5278 and this property will also be subject to the IFT Specific Tax.

Beginning in 2020 all the property is subject to the full ESA Specific Tax and reported on Form 5278 on Part 3, Section 1.

The table below graphically shows the year by year reporting.

<b>IFT Certificate Effective 12-31-05 and Expires on 12-30-17 IFT</b>					
<b>Year Placed in Service</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>2005</b>	ESA at ½ FMV	ESA at ½ FMV	ESA at ½ FMV	ESA at ½ FMV	ESA At Full Cost
<b>2006</b>	IFT Specific Tax	ESA at ½ FMV	ESA at ½ FMV	ESA at ½ FMV	ESA At Full Cost
<b>2007</b>	IFT Specific Tax	IFT Specific Tax	ESA at ½ FMV	ESA at ½ FMV	ESA At Full Cost
<b>2008</b>	IFT Specific Tax	IFT Specific Tax	ESA at ½ plus IFT Specific Tax	ESA at ½ FMV	ESA At Full Cost
<b>2009</b>	IFT Specific Tax	IFT Specific Tax	ESA at ½ plus IFT Specific Tax	ESA at ½ plus IFT Specific Tax	ESA At Full Cost

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This information constitutes an interpretation of one or more statues administered by the Bureau of Local Government Services and not legal advice. As the interpretation reached in these examples are limited to the facts provided, any variation in those facts might result in a different interpretation being reached. Therefore, a taxpayer may wish to consult counsel before proceeding in this matter.