STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

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BULLETIN NO. 8
October 22, 2007
SELF CONSTRUCTED ASSETS

TO: **Equalization Directors**
Assessors

FROM: **State Tax Commission (STC)**

RE: **REPORTING AND VALUATION OF SELF-CONSTRUCTED ASSETS**

BULLETIN 1 OF 1999 IS HEREBY RESCINDED.

The Commission is rescinding Bulletin 1 of 1999 and reissuing this Bulletin to clarify issues related to the inclusion of capitalized interest for self constructed assets. Article IX, Section 3 of the State Constitution requires that assessments shall be uniform (except for certain changes related to Proposal A passed by the voters on March 15, 1994.) It is therefore required that assets which are self-constructed shall be assessed uniformly with similar assets which are purchased, completely-constructed, from a company which sells those assets at the retail level of trade.

Self-constructed personal property assets are those assets that a company constructs on its own or which it hires subcontractors to construct while supervising the construction project itself. As a general policy statement, the appropriate costs to be included by an owner of self-constructed assets are all of those costs that a vendor of completely-constructed assets would include when determining a price to charge for its product on the retail market. These costs include both “direct costs” and “indirect costs”.

Direct Costs:

Direct costs are expenditures for the labor and materials used in the construction of improvements. The overhead and profit of the general contractor and various subcontractors are part of the usual construction contract and, therefore, represent direct costs that should always be included in the cost estimate. Examples of direct costs include the cost of:

- Building permits
- Materials, products, and equipment
- Labor used in construction
- Equipment used in construction
- Security during construction
- Contractor’s shack and temporary fencing
- Material storage facilities

- Power line installation and utility costs
- Contractor's profit and overhead, including job supervision; worker's compensation; and fire, liability, and unemployment insurance
- Performance bonds

Indirect Costs:

Indirect costs are expenditures or allowances that are necessary for construction, but are not typically part of the construction contract. Indirect costs may include:

- Architectural and engineering fees for plans, plan checks, surveys to establish building lines and grades, and environmental studies
- Appraisal, consulting, accounting, and legal fees
- All-risk insurance expense and ad valorem taxes during construction
- The cost of carrying the investment in the property after construction is complete, but before stabilized occupancy is achieved
- Supplemental capital investment in tenant improvements or leasing commissions
- Marketing costs, sales commissions, and title transfers
- Administrative expenses of the developer
- The cost of title change

<u>For utility projects only</u>, the cost of carrying the investment in land and contract payments during construction should also be included. If the property is financed, the points, fees or service charges, and interest on construction loans are indirect costs.

While some of the items listed above are specific to real property, the list indicates the types of costs that shall be reported. An assessor or taxpayer who questions whether a particular cost should be reported may seek clarification from the State Tax Commission.

Important Note: If a taxpayer fails to report all of the costs that apply to self-constructed assets, this under-reporting will result in omitted property as defined in Section 34d of the General Property Tax Act (assuming that the assessor appraises the property by applying the STC Personal Property Multipliers to the under-reported costs). Therefore, the discovery of this under-reporting will result in an "addition" in the Capped Value formula. An addition in the Capped Value formula will further result in an increase in Taxable Value over and above the cap, which is the lesser of 5% or the rate of inflation.