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STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

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**Bulletin No. 19**
**December 10, 2002**
**Personal Property Additions and Losses**

**DATE:** **December 10, 2002**

**TO:** **Assessors**
**Equalization Directors**

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

**RE:** **DETERMINING ADDITIONS AND LOSSES USED IN THE CALCULATION OF THE"HEADLEE" MILLAGE ROLLBACK AND THE TRUTH IN TAXATION ROLLBACK FOR PERSONAL PROPERTY**

The State Tax Commission, at its meeting on September 10, 2002, directed that a new system for determining ADDITIONS and LOSSES used in the calculation of the "Headlee" Millage Rollback and the Truth in Taxation Rollback for **personal property** shall be used, STARTING IN ASSESSMENT YEAR 2004. The purpose of this bulletin is to explain this new mandatory system.

**IMPORTANT NOTE:**
**The directives in this bulletin apply only to the calculation of the "Headlee" rollback (MCL 211.34d) and the Truth in Taxation rollback (MCL 211.24e). They DO NOT apply to the calculation of capped value or to the equalization process.**

**IMPORTANT NOTE:** The new system for determining ADDITIONS and LOSSES used in the calculation of the "Headlee" Millage Rollback (MCL 211.34d) and the Truth in Taxation Rollback (MCL 211.24e) for personal property **may** be used in 2003.

**In the past,** the procedure for determining ADDITIONS and LOSSES used in the calculation of the "Headlee" Millage Rollback and the Truth in Taxation Rollback for **personal property** stated that all changes in taxable value were either ADDITIONS or LOSSES. STARTING IN ASSESSMENT YEAR 2004, this procedure shall no longer be used.

**The new system** approved by the State Tax Commission and required to be used starting in 2004 is outlined in paragraph 2 of this bulletin.

**1) General Guidelines**

The State Tax Commission cannot recommend any practice that understates the amount of the constitutionally-mandated "Headlee" rollback of taxes. The following practices must be avoided because they would understate the amount of the "Headlee" rollback of taxes:

**a)** **Avoid Understating LOSSES**

Understating LOSSES results in an understatement of the amount of the "Headlee" rollback of taxes. In order to avoid understating LOSSES, it is necessary to determine the amount of "move-ins" of used equipment. "Move-ins" of used equipment will be discussed later in this bulletin.

**b)** **Avoid Overstating ADDITIONS**

Overstating ADDITIONS results in an understatement of the amount of the "Headlee" rollback of taxes. In order to avoid overstating ADDITIONS, it is necessary to determine the amount of "move-ins" of used equipment. "Move-ins" of used equipment will be discussed later in this bulletin.

**c)** **Avoid Netting of ADDITIONS and LOSSES**

Netting of ADDITIONS and LOSSES (versus separate treatment of ADDITIONS and LOSSES) must be avoided because it understates the amount of the "Headlee" rollback of taxes.

**2) The NEW Procedure for Determining ADDITIONS and LOSSES Used in the Calculation of the "Headlee" Millage Rollback and the Truth in Taxation Rollback for Personal Property**

The formula for calculating the "Headlee" Millage Rollback remains unchanged. The formula is as follows:

$$\frac{(\text{Prior Year's Taxable Value} - \text{LOSSES}) \times \text{Inflation Rate Multiplier}}{\text{Current Year's Taxable Value} - \text{ADDITIONS}}$$

The formula for calculating the Truth in Taxation Rollback remains unchanged. The formula is as follows:

$$\frac{\text{Prior Year's Taxable Value} - \text{LOSSES}}{\text{Current Year's Taxable Value} - \text{ADDITIONS}}$$

What has changed is the method of identifying the **LOSSES** and **ADDITIONS** used in these formulas for calculating the rollback for most personal property.

Starting in 2004, the instructions for determining ADDITIONS and LOSSES for forms L-4025 and L-4028 will also apply to personal property, where applicable. In addition, the following are some specific guidelines of particular interest for determining ADDITIONS and LOSSES used in the calculation of the "Headlee" and Truth in Taxation rollbacks for **personal property**.

a) The following **increases** in Taxable Value ARE ADDITIONS and are referred to as “move-ins”. There are two types of “move-ins”, “move-ins” of NEW equipment and “move-ins” of USED equipment. (It is important to note that only “move-ins” of USED equipment are reported on STC form 3966 which is filed by the taxpayer along with the personal property statement.)

i) Acquisitions of new personal property made during the year preceding the current tax year are “move-ins” of new equipment. Example: for the 2004 tax year, acquisitions of new personal property made during 2003 are “move-ins” of new equipment and are ADDITIONS.

ii) Acquisitions of used personal property are “move-ins” of used equipment provided that all of the following apply:

1) the personal property was NOT formerly used by the purchaser as leased equipment within this same governmental unit in the immediately preceding year.

2) the personal property was NOT formerly used by the purchaser at another location within this same governmental unit in the immediately preceding year.

3) the personal property was NOT formerly assessed to a different owner in the same jurisdiction in the immediately preceding year

iii) Personal property that was exempt in the prior year (for example, personal property that was exempt on the IFT roll in the prior year).

iv) Personal property mistakenly omitted from the roll in the immediately preceding year.

b) The following **increases** in Taxable Value ARE NOT “Headlee” or Truth in Taxation ADDITIONS and are NOT “move-ins”. They are referred to as **Non-Headlee Increases**.

i) Acquisitions of used personal property purchased from a leasing company AND reported in the prior year by the leasing company in this same governmental unit.

ii) Used personal property reported last year at a different location and/or by a different taxpayer **in the same governmental jurisdiction**, for example, used equipment moved from one location to another location in the same city or property purchased as part of a going concern from a previous owner.

iii) Increases in taxable value due to an increase in the multiplier tables from one year to the next, for example, the increase from one year to the next found in Table K (Crude Oil and Fluid Pipelines).

c) The following **reductions** in taxable value ARE LOSSES.

i) Property assessed in a prior year and physically removed from the governmental unit in the following year.

ii) EQUIPMENT SOLD BY LEASING COMPANIES TO FORMER USERS OF EQUIPMENT. When a leasing company sells used equipment to the same company which has been leasing the equipment, this reduction shall be treated as LOSSES on the leasing company's statement even though the equipment stays in the same unit of government. This is necessary because the mechanics of the system of estimating LOSSES for the lessee/user could otherwise understate LOSSES IN THIS ONE SITUATION.

**Example:** Assume that $250,000 in costs were reported on the **2002** personal property statement of the purchaser as acquisitions for the year 2000. Assume also that the following was reported on the **2003** statement of the purchaser for the year 2000: $400,000 in acquisition costs and $300,000 in "move-ins". Following the formula for calculating LOSSES discussed in paragraph 3 below, there would be $150,000 in acquisition costs of LOSSES for the year 2003. However, suppose that there are also $150,000 in purchases from a leasing company of formerly leased equipment reportable as year 2000 acquisitions on the **2003** statement of the purchaser. Following the guidelines in this bulletin regarding "move-ins", these purchases would not be reportable as "move-ins". The following would then be the new numbers on the **2003** statement of the purchaser for the year 2000: $550,000 of acquisition costs and $300,000 of "move-ins". Using these numbers and the $250,000 of acquisition costs reported on the **2002** statement, the calculated acquisition costs of LOSSES for **2003** are now 0, thereby understating the acquisition cost of LOSSES by $150,000. However, by treating the sale of used equipment by the leasing company of $150,000 as LOSSES, the problem of underreporting LOSSES is corrected.

However, if an audit of the purchaser's personal property statement is performed which identifies formerly leased equipment and which reveals that the purchase does NOT offset LOSSES on the purchaser's statement, as demonstrated in the example above, then it is not necessary to treat the sale (to the user) of formerly-leased equipment as LOSSES on the leasing company's statement. Unless the previously mentioned audit is conducted, all reductions in reported costs on a leasing company's personal property statement must be treated as LOSSES. (NOTE: The purchaser must report the same cost and acquisition year for the property that was reported by the leasing company.)

iii) THE BULK TRANSFER OF THE ASSETS OF AN ONGOING BUSINESS WHERE THE PURCHASER CONTINUES TO OPERATE THE BUSINESS IN THE SAME LOCATION. It is necessary to treat this type of sale of assets as LOSSES because the purchaser who is continuing the business frequently does not acquire all of the seller's assets or disposes of some of the assets purchased prior to tax day and the present system would not otherwise recognize these as LOSSES. However, if the assessor performs an audit and determines the amount of assets which were not purchased by the person who is continuing the business and/or

the amount of disposals by the purchaser AND treats these as LOSSES, then it is not required to treat the rest of the assets involved in the bulk sale as LOSSES. (NOTE: The purchaser must report the same cost and acquisition year for the property that was reported by the seller.)
**Important Note:** The procedure described in this paragraph would not typically be necessary in cases where the same parcel code formerly assigned to the seller is also assigned to the buyer.

d) The following **reductions** in taxable value ARE NOT "Headlee" or Truth in Taxation LOSSES and are referred to as **Non-Headlee Reductions**.

i) Reductions caused by a reduction in the personal property multipliers from one year to the next.
ii) Reductions caused by applying the Idle and Obsolete or Surplus equipment multiplier of .40. (Please see pages 5 and 6 of STC Bulletin 12 of 1999 regarding the Idle and Obsolete or Surplus Equipment multiplier.)
**iii)** Used personal property moved to another location in the same township or city may be treated as a **Non-Headlee Reduction** but only if fully supported by audit.

**3) Equations for Calculating the True Cash Value of ADDITIONS and LOSSES for Personal Property**

Listed below are the formulas for calculating the True Cash Value of ADDITIONS and LOSSES for personal property. (**These formulas produce the True Cash Value of ADDITIONS and LOSSES, NOT the Taxable Value of ADDITIONS and LOSSES.)**

a) ADDITIONS = Acquisition Cost of "Move-ins" **MULTIPLIED BY** Current Year's Personal Property Multiplier.
b) LOSSES = Last Year's Reported Cost **MINUS** (Current Year's Reported Cost **MINUS** Cost of Move-Ins) (provided that the remainder is greater than zero) **MULTIPLIED BY** Last Year's Personal Property Multiplier**.**

**IMPORTANT NOTE:** ADDITIONS and LOSSES are calculated separately for each section of the personal property statement AND for each acquisition year within each section.

See paragraphs 4 to 9 below for a discussion of some specific areas requiring special instructions.

**4) Assets Reported on Section G of Form L-4175: Other Assessable Personal Property**

Assets Reported on Section G of the Personal Property Statement (STC Form L-4175) must be separately analyzed to determine whether changes in taxable value from one year to the next are ADDITIONS and/or LOSSES.

EXAMPLE: Fine art reported for the first time is an ADDITION. An increase in the value of fine art from last year to this year is a Non-Headlee Increase.

**5) Assets Reported on Section H of Form L-4175: Assessable Tooling**

Section H is a separate section for the reporting of assessable tooling. The costs reported on the top line of Section H are ADDITIONS. All cost reductions on the rest of the table are LOSSES. All increases on the rest of the table are Non-Headlee Increases (NOT ADDITIONS). Any departure from this guideline must be supported by an audit.

**6) Assets Reported on Section I of Form L-4175: Qualified Personal Property**

Assets reported on Section I of the Personal Property Statement must be separately analyzed individually to determine whether changes in taxable value from one year to the next are ADDITIONS and/or LOSSES.

**7) Construction In Progress (CIP)**

The STC procedures for reporting CIP, as outlined on the 2003 Personal Property Statement, state that property that was reported as construction in progress last year but which was placed in service on or before December 31, 2002 should be entirely reported on the 2002 acquisition line. That being the case, it is necessary to reduce the ADDITIONS on the 2002 acquisition line of the 2003 personal property statement by the amount of CIP reported on the **prior year's** statement. (This assumes that CIP does not extend over more than one year.) This procedure is necessary because the CIP is contained as ADDITIONS in the prior year's taxable value and it is also fully reported as ADDITIONS on the 2002 acquisition line of the 2003 statement. Unless the adjustment discussed above is made, the result would be an overstatement of ADDITIONS.

**8) Estimated Assessments**

MCL 211.22 authorizes an assessor to estimate an assessment under certain circumstances. This is frequently the case when a property owner fails to file a personal property statement as required by law. An estimated assessment is based on the amount that the assessor considers reasonable and just.

If an assessor has estimated a taxpayer's assessment for personal property in the current year, or has estimated a taxpayer's assessment in the year immediately preceding the current year, or has estimated a taxpayer's assessment in both the current year and in the year immediately preceding the current year, the following procedures shall apply:

a) If the assessor's current year assessment incorporates an increase for additional personal property reasonably estimated to have been placed at that property location, an increase in Taxable Value attributable to the additional personal property is ADDITIONS in the calculation of millage rollbacks. If, after the close of the March Board of Review, a legal determination by the Michigan Tax Tribunal, or by another legally sufficient source, indicates that the estimate made by the assessor resulted in ADDITIONS that were greater than should have been applied, the reduction entered for Headlee and Truth in Taxation millage rollbacks is considered to be LOSSES for the following year's rollback calculations.

b) If the assessor's current year assessment incorporates a decrease for personal property that was reasonably estimated to have been removed from that property location, the decrease in Taxable Value attributable to the removed personal property is LOSSES for the calculation of millage rollbacks. If, after the close of the March Board of Review, a legal determination is received from the Michigan Tax Tribunal, or from another legally sufficient source, which indicates that the estimate made by the assessor resulted in LOSSES that were greater than should have been applied, the increase entered for Headlee and Truth in Taxation millage rollbacks is considered to be ADDITIONS for the following year's rollback calculations.

**9) Idle and Obsolete or Surplus Property**

As stated earlier in this bulletin, a reduction in the value of personal property assessed in the jurisdiction the previous year, due to the placement of the property on idle and/or obsolete or surplus property status, as defined in form 2698, is a non-Headlee reduction (not LOSSES) in the calculation of millage rollbacks. An increase in the value of personal property assessed in the jurisdiction the previous year, due to the removal of the property from idle and/or obsolete or surplus property status, as defined in form 2698, is a non-Headlee increase ( not ADDITIONS) in the calculation of millage rollbacks. Idle and obsolete or surplus personal property may qualify as a "move-in", if it was not assessed in the jurisdiction the previous assessment year. Due to the limited number of instances where this situation arises, the State Tax Commission has not provided for this possibility on form 3966 (the "move-in " form). Instead, if a taxpayer has idle and/or obsolete or surplus property that also meets the definition of being a "move-in", the taxpayer should so indicate prominently on the form 2698 (the idle and obsolete or surplus property form). If the taxpayer also has items of "idle and/or obsolete or surplus property" which are not "move-ins", the taxpayer should complete two forms 2698 (one for each circumstance) and indicate prominently on both that there are two forms 2698 attached to the L-4175.

**10) Calculation of Rollbacks**

It is expected that the major assessing software vendors will be developing program routines to implement the new procedures outlined in this bulletin.

Also, the staff of the Property Tax Division will be developing a spreadsheet program which will be placed on a future update of the CD produced by the State Tax Commission and the Treasury Department. Staff will also be developing a form for use in 2004 for manually calculating the rollbacks. This form will be placed on the Treasury Department Web site which can be accessed at www.michigan.gov/treasury. When you reach the site, click on **Forms.**