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**Bulletin No. 6 of 2004**  
**February 24, 2004**  
**Special Tools Exemption**

**TO: Assessors  
Equalization Directors**

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

**RE: SPECIAL TOOLS EXEMPTION**

Public Act 274 of 2003 was signed by Governor Granholm on January 8, 2004 with an effective date of January 8, 2004.

Public Act 274 of 2003 makes certain changes to the "Special Tools" exemption contained in section 9b of the General Property Tax Act. PA 274 of 2003 became law on January 8, 2004 which would have been too late for the change to be effective for the 2004 assessment roll. However, Public Act 4 of 2004 was signed by Governor Granholm on February 19, 2004. This law changes the effective date of the changes to the "Special Tools" exemption to December 31, 2003. This means that the changes to the "Special Tools" exemption will apply for the first time on the 2004 assessment roll.

**In the past**, section 9b stated that "Special Tools" were as defined by the State Tax Commission and STC Rule 21 contained the definition.

**PA 274 of 2003**, eliminates the need for STC Rule 21, STARTING IN ASSESSMENT YEAR 2004, by including a definition of "Special Tools" within the law.

**1) Definition of Special Tool**

The following is the definition of "Special Tool" contained in PA 274 of 2003:

**"Special tool" means a finished or unfinished device such as a die, jig, fixture, mold, pattern, special gauge, or similar device, that is used, or is being prepared for use, to manufacture a product and that cannot be used to manufacture another product without substantial modification of the device.**

**The length of the economic life of the product manufactured shall not be considered in making a determination whether a device used to manufacture that product is a special tool.**

The word **product** used in the definition of “Special Tools” is defined by the act as follows:

**“Product” means an item of tangible property that is directly created or produced through the manufacturing process. A product may be any of the following items:**

- (i) A part.**
- (ii) A special tool.**
- (iii) A component.**
- (iv) A sub-assembly.**
- (v) Completed goods that are available for sale or lease in wholesale or retail trade.**

The definition in the law goes on to state that Special Tools DO NOT INCLUDE the following:

- a) A device that differs in character from dies, jigs, fixtures, molds, patterns, or special gauges.**

Explanatory note by the STC: Conveyors, trolleys, and computerized mechanical equipment are examples of items that ARE NOT “Special Tools”.

- b) Standard tools.**
- c) Machinery or equipment, even if customized, and even if used in conjunction with special tools.**

Explanatory note by the STC: A press which has been customized to produce only one product IS NOT a “Special Tool” even if the die used in the press is a “Special Tool”.

The term **standard tool** as used above is defined in PA 274 of 2003 as follows:

**“Standard tool” means a die, jig, fixture, mold, pattern, gauge, or other tool that is not a special tool. Standard tool does not include machinery or equipment, even if customized, and even if used in conjunction with special tools or standard tools.**

An example of a “Standard Tool” is a die which can be used to manufacture another product with only minor modification.

**IMPORTANT NOTE:** While the “Special Tools” exemption is, in many ways, the same as it was prior to the enactment of PA 274 of 2003, the following 2 changes are significant:

- a) STC Rule 21 states that “Special Tools” are”... **of such specialized nature that their utility and amortization cease with the discontinuance of such products or models**” (manufactured with the “Special Tools”).

Starting in assessment year 2004, this language will no longer apply to the administration of the “Special Tools” exemption.

- b) The new definition of “Special Tools” contained in PA 274 of 2003, which first takes effect for the 2004 assessment year, states that a “Special Tool” **“cannot be used to manufacture another product without substantial modification of the device.”**

**IMPORTANT NOTE:** The guidelines regarding the “Special Tools” exemption contained on pages 15-6 and 15-7 of Volume III of the STC Assessor’s Manual will only apply to the extent that they are in agreement with the provisions of PA 274 of 2003 and PA 4 of 2004.

## **2) Claiming the “Special Tools” Exemption**

PA 4 of 2004 provides that the personal property statement may include a separate line for providing the aggregate total original cost of exempt “Special Tools”.

The State Tax Commission has, for many years, had a place on its approved personal property statement where a property owner lists the total acquisition cost of “Special Tools” that are excluded from taxation. This will not change.

## **3) Valuation of “Standard Tools”**

PA 274 of 2003 states that “Standard Tools” ARE NOT exempt “Special Tools.” The law goes on to indicate how assessable “Standard Tools” must be valued for assessment purposes.

The act states the following:

**For purposes of a statement submitted under section 19, the true cash value of a standard tool is the net book value of that standard tool as of December 31 in each tax year as determined using generally accepted accounting principles in a manner consistent with the established depreciation method used by the person submitting that statement. The net book value of a standard tool for federal income tax purposes is not the presumptive true cash value of that standard tool.**

This language regarding the valuation of “Standard Tools” is in agreement with the method recommended by the State Tax Commission in STC Bulletin No. 12 of 1999. You may access STC Bulletin No. 12 of 1999 on the Treasury Department Web site at [www.michigan.gov/treasury](http://www.michigan.gov/treasury). When you reach the site, click on **Local Government**. Then click on **State Tax Commission**.

It is the position of the State Tax Commission that a taxpayer is still required to comply with the following directive from STC Bulletin 12 of 1999:

... If an accounting change in estimate is implemented relating to a particular asset, the net book value of that asset, as reported for personal property assessment purposes, shall be the value that would have existed for that asset on December 31 of the current year if a correct estimate had originally been made. In no event shall assessable tooling be reported at an amount less than is indicated by its expected remaining useful life plus salvage value (if applicable under the depreciation method used). The calculation of net book value for personal property reporting purposes shall not be affected by a determination that a change in estimate is unnecessary due to a lack of materiality.

This means that, if the original estimate of useful life turns out to be over or under-stated, the taxpayer must enter a “change of estimate” to reflect the updated information. Such a “change of estimate” prevents an asset that has a significant remaining economic life (and therefore significant true cash value) from being valued at zero. It also prevents an asset from being valued at more than its remaining utility would support.