

§§ 9-14 — PROPERTY TAX EXEMPTION FOR MANUFACTURING MACHINERY AND EQUIPMENT (MME)

Exemption and Exemption Phase—In

The bill exempts all manufacturing machinery and equipment (MME) from local property taxes after a five-year phase-in, with the full exemption taking effect in the assessment year beginning October 1, 2011. Currently, only new and newly acquired MME is exempt from property taxes and then only for its first five years.

The bill continues the existing five-year exemption program until the assessment year beginning October 1, 2011. That program will continue to cover MME acquired between October 1, 2002 and October 1, 2006. At the same time, the bill gradually exempts MME six years old or older from property tax. It phases in the additional exemption over five years. Between assessment years beginning October 1, 2006 and October 1, 2011, the bill increases the exempt portion by 20% per year. The exemption phase-in applies to MME that (1) is already six years old or older in the October 1, 2006 assessment year or (2) turns six years old between the October 1, 2006 and the October 1, 2011 assessment years.

State Payments in Lieu of Taxes (PILOT) and New Payment Phase-In

Under current law, the state is required to reimburse towns for 80% of the revenue loss resulting from the five-year property tax exemption for new and newly acquired MME. But also under current law, the 80% state PILOT grant must be proportionately reduced in any year in which the state appropriation for the grant is not sufficient to pay the full amount to every town. The bill eliminates the authorization for the proportionate reductions, thus requiring the state to pay the full 80% PILOT for MME exempted under the five-year exemption program.

In addition to the 80% PILOT for MME that is exempt under the existing program, the bill requires the state to provide a second payment to towns for the revenue they lose from the phased-in exemptions for older MME not covered by the existing program. As the percentage exemptions for older MME increase during the phase-in, the bill requires the state payment for those exemptions to increase correspondingly. The owner of the older MME continues to pay any property tax not covered by the state payment during the phase-in.

The table below shows the MME exemption phase-in for each assessment year from October 1, 2006 through October 1, 2010 under the bill. Shaded areas show the years in which MME is under the existing MME exemption with an 80% state PILOT. White areas show the percentage exemption applicable to older MME in each year and the corresponding state payment for that exemption.

**PROPERTY TAX EXEMPTION PHASE – IN FOR
MANUFACTURING MACHINERY AND EQUIPMENT**

Assessment Year Starting	EXEMPTIONS FOR MME ON GRAND LISTS AS OF 10/1/06 (Note: In shaded years, although MME is 100% exempt, state PILOT is 80% of lost revenue)				
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
	MME Acquired before 10/1/02	MME Acquired 10/1/02	MME Acquired 10/1/03	MME Acquired 10/1/04	MME Acquired 10/1/05
10/1/06	20%	100%	100%	100%	100%
10/1/07	40%	40%	100%	100%	100%
10/1/08	60%	60%	60%	100%	100%
10/1/09	80%	80%	80%	80%	100%
10/1/10	100%	100%	100%	100%	100%

Exemptions and Payments as of October 1, 2011

The bill permanently exempts all MME from property tax and closes out the existing five-year MME exemption program at the beginning of the October 1, 2011 assessment year. Starting with the fiscal year beginning July 1, 2013, the bill also freezes the state's annual MME payment to each town at 100% of the property taxes the town would have received in the October 1, 2011 assessment year if MME were not tax-exempt. Each town's payment remains fixed at that amount for each fiscal year thereafter, regardless of fluctuations in the value of MME on a town's annual grand list. The OPM secretary must determine the amount of each town's flat payment by January 1, 2013.

MME Depreciation Schedule

In the October 1, 2006 through October 1, 2011 assessment years, the bill requires local assessors to continue to use the same depreciation methods to determine MME valuations that they used for valuing the same or similar property in the October 1, 2005 assessment year. Current law allows towns to adopt several statutory depreciation schedules for various types of business personal property.

For the October 1, 2006 through October 1, 2011 assessment years, the bill requires taxpayers to file with town assessors supplements to their annual

personal property declarations. In the supplements, taxpayers must provide the following information for MME eligible for the existing PILOT or the additional state grant:

1. the assessment year it was acquired and installed;
2. its original cost, including costs for transportation and installation;
3. its depreciated value according to depreciation schedules the local assessor provides; and
4. the total original acquisition cost and depreciated value for all the taxpayer's MME property eligible for tax exemptions.

It requires each assessor to give a personal property declaration and the supplement to the owner of each manufacturing and biotechnology facility. It bars the supplements for the October 1, 2006 through October 1, 2011 assessment years from reflecting any change in depreciation schedules applicable to the property that would increase its assessment over its previous year's assessment.

Administration

The bill requires towns to certify the amount of property tax due on MME no longer eligible for the 80% PILOT payment under the five-year exemption program to the OPM secretary annually by November 15th starting in 2006. The secretary must certify the amount payable to a town to the comptroller within 30 days, the comptroller must order the treasurer to pay the amount within 14 days, and the treasurer must pay the town within five days before the tax is due to each town. Any needed adjustments to the tax due must be accounted for in the next payment.

The bill applies all existing valuation and enforcement procedures to exempt MME and allows taxpayers to appeal assessments of the property to local boards of assessment appeals according to existing laws.

Machinery and Equipment Covered

Under both current law and the bill, the MME exemption covers machinery and equipment used in biotechnology or installed in a manufacturing facility and used predominantly for or in:

1. manufacturing, processing, or fabricating;
2. manufacturing-related research and development, including experimental or laboratory research and development;

3. manufacturing-related design or engineering;
4. significant servicing, overhauling, or rebuilding of machinery and equipment for industrial use;
5. significant overhauling or rebuilding of other products on a factory basis;
6. measuring, testing, or metal finishing; or
7. production of movies or video or sound recordings.

No one may receive a property tax exemption for the same machinery or equipment under both the bill and either of two existing exemptions for (1) machinery and equipment in a manufacturing facility located in a distressed municipality, targeted investment community, or enterprise zone and (2) machinery and equipment acquired as part of a technological upgrading of a manufacturing process.

EFFECTIVE DATE: July 1, 2006. The phase-in of new exemptions and state payments apply to assessment years starting on or after October 1, 2006.