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PERSONAL PROPERTY EXEMPTION FOR FARMERS' COOPERATIVES

House Bill 4339
Sponsor: Rep. Gene DeRossett
Committee: Tax Policy

Complete to 3-31-03

A SUMMARY OF HOUSE BILL 4339 AS INTRODUCED 3-12-03

The bill would amend the General Property Tax Act to address exemptions for personal property in several ways. It would:

- Exempt from taxation the personal property of a farmers' cooperative when that personal property would be exempt if owned by a member of the cooperative (i.e., a farmer);
- Add to the definition of "agricultural operations" so that it would specifically include the raising or growing of grains, fruits, vegetables, bedding plants, and nursery stock;
- Replace the term "state equalized value (SEV) with "taxable value" for two kinds of limited personal property exemptions.

Agricultural Exemption. The General Property Tax Act exempts from taxation personal property actually being used in agricultural operations and the farm implements held for sale or resale by retail servicing dealers for use in agricultural operations. The act, in Section 9 (j), defines "agricultural operations" for the purpose of the exemption as follows:

"farming in all its branches, including cultivation of the soil, growing and harvesting of an agricultural, horticultural, or floricultural commodity, dairying, raising of livestock, bees, fur-bearing animals, or poultry, turf and tree farming, raising and harvesting of fish, and any practices performed by a farmer or on a farm as an incident to, or in conjunction with, farming operations, but excluding retail sales and food processing operations".

House Bill 4339 would amend the act to specifically include in this definition the raising or growing of grains, fruits, vegetables, bedding plants, and nursery stock.

The term "agricultural operations" also currently includes:

"machinery used to prepare the crop for market operated incidental to a farming operation that does not substantially alter the form, shape, or substance of the crop and is so limited to cleaning, cooling, washing, pitting, grading, sizing, sorting, drying, bagging, boxing, crating, and handling if not less than 33 percent of the volume of the crops processed in the . . . year or in at least 3 of the immediately preceding 5 years were grown by the farmer in Michigan who is the owner or user of the crop processing machinery".

Under House Bill 4339, the exemptions in Section 9 (j) would apply to farmers' cooperatives in the same way that they now apply to their farmer and producer members. The

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bill specifies that the term “farmers’ cooperative” refers to those cooperatives governed by Section 98 of Public Act 327 of 1931 (the Michigan General Corporation Act). That section applies to a corporation that, among other things, does not conduct more than 50 percent of its business or services with nonstockholders or nonmembers.

Taxable Value. The General Property Tax Act provides a personal property tax exemption up to \$5,000 in state equalized valuation for the household furnishings, provisions, and fuel of each social or professional fraternity, sorority, and student cooperative house recognized by the educational institution where it is located. The act also exempts the working tools of a mechanic in an amount up to \$500 in SEV. House Bill 4339 would base these limits on taxable value rather than SEV. Taxable value is the term introduced with the adoption in 1994 of the constitutional limit on how much assessments can increase from year to year. Typically, taxes now are based on taxable value rather than SEV. The state equalized value of real property, for example, is typically higher than taxable value since taxable value reflects the reduction in assessment required by the cap on assessment increases.

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■This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.