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ResearchReport

# Property Tax Exemptions for Manufacturing Machinery and Equipment

By: Jessica Schaeffer-Helmecki, Legislative Analyst II
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## Issue

Briefly explain the state-mandated 100% property tax exemption for machinery and equipment (MME). How does the state currently reimburse municipalities for the associated revenue loss and how has it done so in the past? Has any recent legislation been proposed regarding the MME exemption reimbursement?

## Summary

Since the 2011 assessment year, state law has exempted all MME from local property tax. The exemption generally applies to tangible personal property installed in a manufacturing facility that its owner claims as five- or seven-year property for federal tax purposes and is used for a statutorily-defined purpose. Prior to the 2011 assessment year, new and newly acquired MME was exempt for the first five years after it was acquired and, from the 2006 to 2010 assessment years, MME that was six years old or older was exempt under a five-year phase-in schedule (PA 06-83).

The state does not currently reimburse municipalities for the MME exemption, although it does provide bond-funded municipal aid grants that are indirectly designed to mitigate a portion of the revenue loss from the exemption. Prior to FY 12, the state reimbursed municipalities for part or all of the revenue loss attributed to the MME exemption (along with a separate exemption for certain commercial vehicles) through a payment in lieu of taxes (PILOT) grant. Beginning in FY 12, the legislature eliminated the PILOTs and replaced them with manufacturing transition grants that equaled the PILOT amount each municipality received in FY 11. The legislature subsequently

eliminated the manufacturing transition grants for FY 14 and replaced them with bond-funded municipal aid grants directed through the Town Aid Road (TAR) program. Municipalities have been receiving these bond-funded grants since then.

We identified three proposed bills concerning the MME reimbursement since 2011, when the legislature eliminated the MME PILOT and replaced it with the manufacturing transition grant. HB 5598 (2011) would have authorized municipalities to collect property taxes from MME owners equal to the difference between the amount reimbursed by the state and what owners would have paid absent the exemption. It was referred to the Planning and Development Committee but the committee took no action on it. SB 524 (2013) would have increased funding for the manufacturing transition grants. It was referred to the Appropriations Committee but the committee took no action. HB 5464 (2014) would have allocated a portion of the General Fund surplus to the manufacturing transition grant program. It died on the House calendar, but its provisions ultimately were enacted as part of PA 14-47 (§ 46).

## MME Exemption Overview

By law, MME qualifies for a 100% property tax exemption if it meets the Internal Revenue Code's definition of five- or seven-year depreciable property, is claimed as such on an owner's federal income tax return, and is used predominantly for a statutorily defined purpose, including manufacturing, research and development, measuring or testing for metal finishing, or motion picture or sound recording production (CGS § 12-81(72)&(76)). (The law also provides for a five-year, 80% exemption for MME available to businesses under the enterprise zone program (CGS § 12-81(60)).

This exemption has applied since the 2011 assessment year. From 2006 through 2010, MME was exempt under two different statutes, depending on when it had been acquired by the manufacturer. CGS § 12-81(72) provided a five-year, 100% exemption for new or newly acquired MME and CGS § 12-94f provided an exemption for MME six years old or older. The exemption percentage under CGS § 12-94f increased on an annual basis, starting in 2006. As of the 2011 assessment year, all eligible machinery and equipment was 100% exempt under this statute.

Prior to 2006, state law provided only a five-year exemption for new and newly acquired MME. OLR Reports 2002-R-0376 and 2003-R-0345 provide a historical perspective on this earlier exemption.

# Reimbursement to Municipalities

## *Current Municipal Aid Grants*

Since FY 14, the state has indirectly reimbursed municipalities for part of the MME exemption via bond-funded municipal aid grants directed through the Town Aid Road (TAR) program. The law gives the Office and Policy and Management secretary discretion to authorize municipalities to use TAR grants for purposes other than those related to building, improving, and maintaining roads and bridges. Originally, the legislature authorized $56.4 million in bonds per year for FYs 14 and 15 (PA 13-239 (§ 55) and PA 13-247 (§ 128)). Since then, it has authorized $60 million per year for the grants PA 15-1 (§13(h)) and PA 17-2, June Special Session (JSS)(§ 432)). The law specifies the grant amount each municipality receives.

## *Historical MME Reimbursements*

Historically, the state provided PILOT grants that reimbursed municipalities for 100% of the MME property tax revenue they would have collected absent the exemption. In 2001, the legislature reduced the reimbursement to 80% of the foregone revenue, but maintained the 100% exemption for new and newly acquired MME and certain commercial vehicles (PA 01-06, JSS).

In 2011, the legislature ended the PILOT payments to municipalities (PA 11-61 § 189, repealing CGS § 12-94b)). To mitigate the loss of the grants, the legislature created a new "manufacturing transition grant" for municipalities payable from a nonlapsing general fund account, the Municipal Revenue Sharing Account (MRSA) (PA 11-6 (§ 96) and PA 11-61 (§ 44)). The grants equaled the amount each municipality received as a PILOT in FY 11 and the specific town-by-town amounts were specified in the law. The legislature dedicated a portion of sales, luxury, and state real estate conveyance taxes to fund MRSA.

Then, in 2013, the legislature ended the manufacturing transition grants by defunding the MRSA account (PA 13-184 (§ 78)). In the same year, it began indirectly reimbursing towns via the above-described TAR grant program.

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