

Renaissance Zone Frequently Asked Questions

The Renaissance Zone initiative is somewhat different from past state and local targeted economic development programs in that paperwork is held to a minimum. To receive the benefits under this initiative, residents and businesses must do the following:

Renaissance Zone residents must:

- 1) not be delinquent in any state or local taxes abated by the Renaissance Zone law.
- 2) file an annual state and, if appropriate, local income tax return.
- 3) file a form prescribed by the Renaissance Zone community for local income tax purposes.

Renaissance Zone businesses must:

- 1) not be delinquent in any state or local taxes abated by the Renaissance Zone law.
- 2) file an annual Single Business Tax return.
- 3) if appropriate, file a local income tax return.

Residential rental property owners

Who has to file an affidavit?

Only residential rental property owners are required to file an affidavit with the local unit of government verifying that their properties are in substantial compliance with all applicable state and local zoning building and housing laws, ordinances and codes. This affidavit must be filed by residential rental property owners every year. Homeowners and businesses located within Renaissance Zones do not have to file this affidavit.

To gain the tax benefit, property owners of residential rental property must file an affidavit before December 31 in the tax year immediately preceding the year in which the abatements apply. The determination of whether a property is in *substantial* compliance with all laws, ordinances and codes is made by the local unit of government. Landlords whose property is determined to not be in substantial compliance after the filing of the affidavit may appeal through the proper appeal process as defined by local ordinance.

If a parcel of property has commercial activity on the first floor and residential rental on the second floor of the same property, does the individual need to submit an affidavit?

Yes. If an affidavit has not been submitted for the property, the residential rental property portion is not eligible for the tax abatement. The determination to separate commercial from residential rental property for property tax purposes will be made by the local unit of government. Property taxes on the parcel will have to be apportioned between the two uses with the commercial value being abated.

Residents of Renaissance Zones

If I live in a community with a Renaissance Zone, can I become a resident of a Renaissance Zone and get the tax benefits? What must I do to be considered a resident of a Renaissance Zone?

Yes, you may relocate into a Renaissance Zone. However, you must live in a Renaissance Zone for 183 days and not be delinquent in any state or local taxes abated under the Renaissance Zone law. Your address in the Renaissance Zone must be your principal, permanent residence. For example, if you become a full-time resident of a Renaissance Zone on March 1, 1997, you do not attain residency status until 183 consecutive days later (August 30, 1997). After a taxpayer has completed the 183-day residency

requirement, the taxpayer is considered to have been a resident of that Renaissance Zone beginning from the first day used to determine if the 183-day residency requirement has been met, or January 1, 1997, whichever is later. If the residency requirement is completed after the annual tax return due date for the tax year in which the qualified taxpayer first moved into the Renaissance Zone, the taxpayer may file an amended income tax return for the previous year. Only individuals who are residents of a Renaissance Zone are exempt from paying income taxes.

If I'm a resident of a Renaissance Zone, do I have to pay income tax or residential property tax?

Residents of Renaissance Zones who are not delinquent in the state or local taxes abated by the Renaissance Zone law are exempt from state and local income taxes. Additionally, homeowners are free from most property taxes for the duration of the Renaissance Zone initiative as long as they meet all qualifications required under the law. Residents of cities with a local income tax may also be required to file a form prescribed by the city. Upon verification of the information provided on this form, individuals must file a certificate of qualification issued by the city with his or her employer. To receive the Renaissance Zone state and local income tax exemptions, a taxpayer must also file an annual tax return.

Residents of Renaissance Zones who have met the 183-day residency requirement will need to file an amended W-4 form with their employer to stop state and local income tax withholding. The W-4 form can be revised for Renaissance Zone residents by marking the exemption box and inserting language stating that they are a resident of a Michigan Renaissance Zone.

If I am a homeowner and my primary residence is in a Renaissance Zone, I will not be assessed property taxes for the current tax year. However, if I pay my property taxes as part of my monthly payment, how I can communicate to my mortgage lender that additional escrow payments for real estate taxes are not necessary?

Residents of Renaissance Zones should contact their mortgage lender to ascertain what documentation is necessary to have their escrow payments reduced or reimbursed.

If I am a resident of a Renaissance Zone and I move out of the Renaissance Zone, are there any requirements that I must meet?

If an individual who has had their income tax exempted under the Renaissance Zone law relocates their primary residence out of a Renaissance Zone, the taxpayer must send written notice of their change in residence status to the local unit of government, and file a revised W-4 form with their employer, no more than ten days after the change in status occurs.

What if I work as an employee in a Renaissance Zone but live outside of the Renaissance Zone?

The Renaissance Zone tax benefits for individuals applies only to residents of a Renaissance Zone. If you work in a Renaissance Zone but are not a resident of a zone, you still must pay state and local income taxes.

Businesses located within Renaissance Zones

I have a business in a Renaissance Zone. Is it eligible for Renaissance Zone tax benefits?

Yes. Both corporations and unincorporated businesses are exempt from most property taxes on property in the Renaissance Zone and are exempt from the portion of Single Business Tax (SBT) and city income tax attributable to business activity in the Renaissance Zone. The firm cannot be delinquent in any state or local

taxes abated under the Renaissance Zone law (see "General Questions" for clarification of delinquency). To be eligible for the tax benefits, qualified taxpayers must file an annual SBT return, and, if applicable, a city income tax return. The SBT credit is effective for tax years beginning after December 31, 1996. The city income tax deduction is effective beginning with the tax year ending in 1997. For tax years beginning in 1996 and ending in 1997, the city income tax deduction will be prorated based on the firm's business activity occurring in the zone in 1997.

I have a business located in a Renaissance Zone. I rent space from another business. For what Renaissance Zone tax benefits is my business eligible?

Your business is exempt from the portion of the Single Business Tax (SBT) and city income tax attributable to business activity in the Renaissance Zone. You must file an annual SBT return and, if applicable, a city income tax return. Personal property is exempt from most property taxes if it is located in the zone on December 31 and at least 182 other days of the preceding tax year. To receive the Renaissance Zone tax benefits, the business cannot be delinquent in any state or local taxes abated under the Renaissance Zone laws.

I own property in the Renaissance Zone and rent this space out to a business. For what Renaissance Zone tax benefits am I eligible?

The real and personal property owned by you and located in the Renaissance Zone is exempt from most property taxes. For personal property to qualify, it must be located in the zone on December 31 and at least 182 other days of the preceding tax year. You are also exempt from the portion of the Single Business Tax (SBT) and city income tax attributable to your business activity in the Renaissance Zone. You must file an annual SBT return and, if applicable, a city income tax return. To receive the Renaissance Zone tax benefits, you cannot be delinquent in any state or local taxes abated under the Renaissance Zone laws.

Is personal property eligible for the property tax reduction?

Personal property is eligible for property tax reduction if two conditions are met: 1) the personal property must be physically located in the zone on December 31 in the calendar year immediately preceding the year in which the abatements apply, and 2) it must have been in the zone at least 182 other days in the calendar year immediately preceding the year in which the abatements apply. As an example, for personal property to be reduced or eliminated in calendar year 1998, the personal property must have been in the zone on December 31, 1997 and 182 other days in 1997.

What if my firm has employees who work outside the Renaissance Zone, or my firm has more than one location of business activity in Michigan?

Only the portion of a business tax liability that is attributable to business activity conducted within an Renaissance Zone is eligible for the tax credits under the Renaissance Zone law. For the city income tax, the Renaissance Zone deduction is equal to the tax liability attributable to business activity conducted within the zone. The city income tax deduction is based on the average of two factors: percentage of city property that is located in the zone and, of the payroll paid for work done or services performed in the city, the percentage attributable to work done or services performed in the Renaissance Zone.

For SBT, the Renaissance Zone credit is equal to the tax liability attributable to business activity conducted within the zone. The SBT credit is based on the average of two factors: percentage of Michigan property located in the zone and percentage of Michigan payroll paid for work done or services performed in the zone. The credit may not be applied to tax liability attributable to business activity related to the operation of a casino.

For additional clarification on these issues, the business should contact its accountant and/or the Michigan Department of Treasury for a final determination regarding the apportioning of taxes.

What is the Renaissance Zone boundary bisects a parcel of property?

The property taxes on the parcel will have to be apportioned between property that is inside and outside of the zone. The responsibility of assessing the property in this scenario rests with the local unit of government.

Job relocations into Michigan Renaissance Zones

The Renaissance Zone legislation contains restrictions covering the transfer of jobs into Renaissance Zones. In all cases firms may relocate and expand into Renaissance Zones, but in order to gain the tax benefits of this initiative, firms with a presence in Michigan are required to follow notification procedures established by law. While job transfer requirements are laid out in Public Act 376 of 1996, the following four scenarios generally summarize job transfer requirements.

1. Michigan firm located within a Renaissance Zone community but outside its zone (i.e., intra-county transfer of jobs)

If my business is not in a Renaissance Zone but is located within a community with a Renaissance Zone, what must be done to relocate my business into a Renaissance Zone and gain the tax benefits?

A business located in a city, township or county receiving Renaissance Zone designation cannot receive the exemptions, deductions, or tax credits under the Renaissance Zone law unless the governing body of the city, township or county in which the Renaissance Zone is located, approves the relocation of the business by adopting a resolution. If the governing body does not pass a resolution, the business is not eligible for the tax benefits provided by this initiative.

In order to gain tax benefits under the Renaissance Zone initiative, businesses presently located in the cities of Benton Harbor, Detroit, Flint, Grand Rapids, Lansing, Saginaw, and Benton Township, must secure a resolution affirming the move by their respective city council or township board for the intra-jurisdictional transfer of **any** job(s) into a Renaissance Zone. In order to gain tax benefits under the Renaissance Zone initiative, businesses presently located in the counties of Berrien (excluding the city of Benton Harbor and Benton Township), Gogebic, Gratiot, Houghton, Iosco, Macomb, Manistee, Montcalm, and Ontonagon, must secure a resolution affirming the move by the county board of commissioners from their respective county for the intra-county transfer of any job(s) into a Renaissance Zone.

2. Michigan businesses located outside of an Renaissance Zone unit of government moving into a Renaissance Zone (i.e., inter-jurisdictional transfer of jobs)

If my firm is to gain the tax benefits under this initiative and I want to move my business operation(s) from another location in Michigan into a Renaissance Zone, what restrictions apply?

If a business relocates more than 25 full-time jobs (defined as the equated count of full-time hours worked) from a non-Renaissance Zone city, township, village, or any combination thereof, into a Renaissance Zone, in order to gain the tax benefits, the business must first notify each city, township, or village from which the jobs are being relocated and the Michigan Jobs Commission. The business is not eligible for Renaissance Zone benefits if **any** city, township, or village from which the jobs are being transferred adopts a resolution objecting to the relocation of jobs within 60 days after notification is received. If the community adopts a such a resolution, the business still may move to a Renaissance Zone, but it is not eligible for any of the

exemptions, deductions, or credits authorized under the Renaissance Zone initiative unless the community rescinds its objection by resolution.

For Michigan businesses, the legislation is specific regarding the total limit of 25 full-time equivalent jobs being transferred from one Michigan community to a Renaissance Zone in another community. (See Section 10(3) of P.A. 376 of 1996). A business may not transfer more than 24 Michigan-based jobs over successive years, or more than 24 jobs from a combination of transfers, from other Michigan communities without fulfilling all of the notification requirements established by law. For additional information on procedures, please contact the Renaissance Zone local unit of government.

3. Job transfers within a Renaissance Zone community from one sub-zone to another sub-zone

If a business is located in one sub-zone within a Renaissance Zone community and wants to relocate to a different sub-zone within that same community, what notification requirements apply?

A business is not required to notify its host Renaissance Zone unit of government when moving among sub-zones in the same community. However, it is recommended that businesses in this scenario contact local government officials to avoid any confusion resulting from such a relocation.

4. Non-Michigan businesses locating to Renaissance Zones

What restrictions apply to non-Michigan firms moving into a Renaissance Zone?

Businesses without a presence in Michigan do not have job transfer restrictions. Notification requirements do not apply for non-Michigan firms moving into Michigan Renaissance Zones.

General questions

If I am delinquent in any state or local taxes, can I still gain the tax benefits?

If on December 31 you are delinquent in a tax that is eligible to be abated under the Renaissance Zone law, you are not eligible for tax exemption in the subsequent tax year. Delinquency occurs as defined by law, or when a taxing unit can assess penalties and fees for collection. Taxes abated under the Renaissance Zone law include:

1. single business tax (SBT)
2. state income tax
3. general property tax
4. city income tax
5. industrial facilities tax
6. commercial facilities tax
7. enterprise zone tax
8. technology park facilities tax
9. commercial forest tax
10. neighborhood enterprise zone tax
11. city utility users tax

If I'm a business located outside of a Renaissance Zone and I have employees who reside within a Renaissance Zone, what must I do regarding their withholdings?

Employees who are residents of Renaissance Zones that have met the 183-day residency requirement must file new state and city W-4's with their employer to stop withholding of state and city income tax. For cities with income tax, the city may also require the taxpayer file an additional form prescribed by the city after the date the employee completes the residency requirements. The city will then verify the information and will issue a certificate of qualification to the taxpayer, which the taxpayer will file with his or her employer. For cities requiring this additional form, the employer should not stop withholding the employee's local taxes until receipt of this certificate of qualification. After the employer receives a new state W-4, the employer must forward it to the Michigan Department of Treasury.

The employer should inform the employee that to be considered a resident of a Renaissance Zone and to gain the tax benefits, that the employee's primary residence must be located within a Renaissance Zone, the employee must not be delinquent in any state or local taxes, and the employee must have fulfilled the 183-day residency requirement. Employees from certain cities may also be required to also file a certificate of qualification with the employer. This certificate issued by the city is for the purpose of proving residency status

Do residents or businesses have to pay city utility tax if located within a Renaissance Zone?

This question only applies to firms and residents in the City of Detroit. Firms and residents located within Detroit's Renaissance Zone areas are exempt from the city utility user's tax.

For additional information on the Michigan Renaissance Zone initiative, you may call or write:

Michigan Jobs Commission
201 North Washington Square
Victor Center, 4th Floor
Lansing, Michigan 48913
(517) 373-9808

Michigan Department of Treasury
Bureau of Revenue
Individual Taxes Division
Treasury Building
430 West Allegan Street
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(517) 373-1426