



**House
Legislative
Analysis
Section**

Olds Plaza Building, 10th Floor
Lansing, Michigan 48909
Phone: 517/373-6466

MEGA: SBT CREDIT EXTENSION

**House Bill 4840 (Substitute H-1)
First Analysis (11-14-96)**

**Sponsor: Rep. Beverly Hammerstrom
First Committee: Tax Policy
Second Committee: Commerce**

THE APPARENT PROBLEM:

The Michigan Economic Growth Authority, created by Public Act 24 of 1995, is able to grant single business tax (SBT) credits to businesses locating or expanding in the state that meet certain specified statutory criteria related to new job creation and benefit to the state economy. The tax credits are to be used to address competitive disadvantages with sites outside the state and are not to be awarded unless the expansion or location of the business would not otherwise occur in the state. The size and duration (up to 20 years) of the credit is determined by MEGA based on the number of new jobs to be created, the average wage level of the jobs, the total capital investment to be made by the business, the cost differential of locating in Michigan rather than elsewhere, and other factors. MEGA may not execute more than 25 new SBT credit agreements each year. When MEGA was created, the Single Business Tax Act was also amended to allow for the granting of two kinds of credits. Those amendments only allowed credits to be granted to businesses whose initial certification by MEGA is issued by December 31, 1996. Legislation has been introduced to extend the authority of MEGA to grant SBT credits.

THE CONTENT OF THE BILL:

The bill would amend the Single Business Tax Act to extend the two tax credits that are available to companies under the Michigan Economic Growth Authority Act. Currently, those credits are available only to companies (SBT "taxpayers") whose initial certification by the authority is issued by December 31, 1996. The bill would extend that date to December 31, 1999.

MCL 208.37c and 208.37d

FISCAL IMPLICATIONS:

The House Fiscal Agency has not yet completed its analysis. It should be noted that the act creating MEGA specifies that a tax credit should only be granted if a cost benefit analysis reveals that it would result in an overall positive fiscal impact to the state. According to published reports citing Jobs Commission figures, about \$158

million in tax credits have been granted thus far to 25 businesses under MEGA. (11-13-96)

ARGUMENTS:

For:

The bill would extend for three years the ability of the Michigan Economic Growth Authority to grant Single Business Tax credits for three years. MEGA was created to help Michigan compete for new businesses and jobs with other states. Unlike some other tax credit programs, the MEGA credits are only to be granted after a business has located and expanded in the state and created a minimum number of jobs. The Michigan Jobs Commission, which is staff to MEGA, cites figures from the University of Michigan asserting that the 25 projects authorized thus far will generate 17,019 jobs, including 6,797 direct jobs and 10,222 indirect jobs. The participating companies estimate the new jobs will pay an average weekly wage of \$582, say MEGA officials, and the credits are expected to result in \$846 million in private investment in the state and \$10 billion in personal income. The Jobs Commission says the tax credits have been used conservatively. Only 25 of the 50 available have been issued in the first two years, they say, despite 79 applications, and "considerable evidence exists to suggest that none of the projects would have been located in Michigan without the MEGA incentive."

Against:

When the MEGA legislation was first proposed, some people opposed it on the grounds that it "is a departure from [the] proven free-market economic development approach toward an industrial policy model of economic planning, with political appointees picking the winners and losers." Critics said this tax incentive approach would not only fail to achieve its primary objective, but also increase the size and cost of government, subject the state to litigation, discriminate against certain kinds of businesses, hinder future efforts to reduce the overall tax burden, cause economic dislocation and inefficiency, and set a poor precedent of state-level discretionary tax

House Bill 4840 (11-14-96)

policy." (Quotations from a report on MEGA by the Mackinac Center for Public Policy.)

POSITIONS:

A representative of the Michigan Jobs Commission testified in support of the bill. (11-13-96)

House Bill 4840 (11-14-96)

Analyst: C. Couch

■ 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.