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MEGA: SBT CREDIT EXTENSION

Senate Bill 573 (Substitute H-2) First Analysis (6-8-99)

Sponsor: Sen. Mike Rogers
House Committee: Tax Policy
**Senate Committee: Economic
Development, International Trade,
and Regulatory Affairs**

THE APPARENT PROBLEM:

Public Act 24 of 1995 created the Michigan Economic Growth Authority Act and established a special authority, known as MEGA, with the power to award single business tax (SBT) credits to companies based on their ability to provide job growth in the state. In order to be awarded an SBT credit, a company must demonstrate to MEGA that it will create 75 new jobs if an in-state business expanding, or 150 new jobs if an out-of-state company locating a facility in Michigan, or 25 jobs if the business is locating in a special zone, such as an enterprise zone or empowerment zone. The average wage of the new jobs must equal or exceed 150 percent of the federal minimum wage. MEGA also must determine that the expansion or location of the business would not occur without the tax credits (referred to by state officials as the "but for" provision). There are a number of other criteria as well, including the completion of a cost-benefit analysis that will demonstrate that authorizing the tax credits will result in an overall positive fiscal impact on the state. Up to 25 new credits can be awarded each year. Public Act 23 of 1995 amended the Single Business Tax Act to provide for the MEGA credits. It allows credits to be awarded for up to 20 years, with the amount of the credit to be certified each year by MEGA, up to the amount of its payroll attributable to employees performing qualified new jobs multiplied by the tax rate. Public Act 23 allowed initial certifications of tax credits to be issued until December 31, 1999. Legislation has been introduced to extend this deadline to allow for the MEGA program to continue.

THE CONTENT OF THE BILL:

The bill would amend the Single Business Tax Act to extend for four years, until December 31, 2003, the deadline for the initial certification of authorized businesses by the Michigan Economic Growth Authority (MEGA).

MCL 208.37c and 208.37d

HOUSE COMMITTEE ACTION:

The House Tax Policy Committee adopted a substitute that is essentially the same as Senate Bill 573 as introduced. The Senate-passed version contained an unrelated set of provisions on the tax treatment of foreign companies; these provisions, however, became part of House Bill 4745, the SBT phase-out bill.

BACKGROUND INFORMATION:

A fact sheet distributed to the House Tax Policy Committee by MEGA representatives indicates that there have been 63 projects since 1995: 12 in 1995; 15 in 1996; 12 in 1997; 17 in 1998; and 7 so far in 1999. The total amount of credits is estimated at \$445 million. Of the 63 projects, 51 were for manufacturing facilities and 12 for non-manufacturing facilities, such as wholesale distribution, research and development, engineering, and computer support. Over 19,000 direct jobs have been created, says MEGA, and over 55,000 spin-off jobs. The average wage for new jobs was \$619 per week. The total private investment is put at \$2.347 billion.

FISCAL IMPLICATIONS:

The Senate Fiscal Agency says that it is not possible to estimate the bill's impact on state revenues because there is no way to estimate: 1) the number of businesses that will apply for and be granted MEGA tax credits; 2) the number of jobs that will be created; 3) whether the businesses would have invested in

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Michigan without the credits; and 4) to what extent businesses already in Michigan would be affected, positively or negatively, by the new business expansions. (SFA committee summary dated 5-5-99) MEGA officials say tax credits thus far total \$455 million for 63 firms.

ARGUMENTS:

For:

The bill would extend for four years the ability of the MEGA program to award SBT credits as a means of promoting expansion for Michigan firms and attracting new firms into the state. MEGA program officials say the program is a valuable economic development tool that has permitted Michigan to compete successfully against its competitor states, particularly Indiana, Ohio, and Kentucky. Other states have these targeted tax breaks. MEGA officials say that for every \$1 in credits, \$8 in additional revenue has been generated. These kind of credits are only awarded, officials say, when they make a difference in the expansion or location of a business. MEGA has been awarding certificates to about 12 to 17 firms each year.

Against:

Some people object to programs of this kind as a matter of philosophy. The MEGA program involves the state in "picking winners and losers", giving tax breaks to some businesses while others go without. MEGA officials even decide the size and duration of the credit. This is not an appropriate role for state government. It leads, obviously, to unequal treatment of businesses, often to the disadvantage of established Michigan companies. In this case, the program gives aid only to companies that can promise new jobs; it does nothing for struggling companies trying to stay in business and maintain jobs. If lower taxes are the way to promote business growth, broad-based tax reductions that benefit all businesses would be preferable.

POSITIONS:

Representatives of the Michigan Economic Development Corporation testified in support of the bill. (6-3-99)

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.