



**House
Legislative
Analysis
Section**

House Office Building, 9 South
Lansing, Michigan 48909
Phone: 517/373-6466

RAILCAR MAINTENANCE CREDIT

**House Bill 5681 as introduced
First Analysis (5-17-00)**

**Sponsor: Rep. Mike Kowall
Committee: Tax Policy**

THE APPARENT PROBLEM:

The state utility tax is levied in lieu of the local property tax on the property of telephone and telegraph companies, railroads, and some others (but not electric and gas utilities). The tax is administered at the state level rather than by local units and is levied at a rate equal to the average statewide ad valorem rate levied on other commercial, industrial, and utility property. The tax is also levied on railcars not owned by railroad companies. Some people have proposed that a credit be made available for the non-railroad company owners of railcars in order to encourage them to have the railcars repaired in Michigan. Proponents of such a measure say that Indiana recently enacted a railcar maintenance tax credit and as a result has seen a significant increase in railcar repair and maintenance activity. They also say that Canada and the neighboring states of Ohio, Illinois, Iowa, and Minnesota, do not impose such a tax on non-railroad owners of railcars. The future of repair facilities in Port Huron, Waterford, Midland, and Birmingham is threatened, say industry representatives, by the extra costs imposed on railcar owners by the state utility tax.

THE CONTENT OF THE BILL:

The bill would amend Public Act 282 of 1905, which provides for the assessment of the state utility tax, to provide a credit against the tax equal to 25 percent of the amount of expenses incurred in the state in the immediately preceding tax year to maintain or improve the qualified rolling stock of a company that owns, leases, runs, or operates railcars that are not the exclusive property of a railroad company. The company would apply for the credit to the State Board of Assessors. The credit could not exceed the company's tax liability for the year in which it was claimed.

MCL 207.13a

FISCAL IMPLICATIONS:

The House Fiscal Agency reports that a preliminary analysis indicates that the bill would reduce utility property tax revenues by about \$5 million to \$10 million. (Fiscal Note dated 4-26-00)

ARGUMENTS:

For:

The bill aims at protecting hundreds of jobs of Michigan workers who repair and maintain rail cars. It would provide a credit for railcars owned by non-railroad companies so that they will have an incentive to continue to send their railcars to Michigan facilities for repair and maintenance. Supporters say that without such a credit, companies will have their railcars maintained in locations with a more favorable tax climate. The proposed tax credit will put Michigan on an equal footing with Indiana (and others). The credit will have no impact on the tax revenue of the local units of government because the bill affects a special (and old) state tax levied in lieu of local property taxes.

Against:

The usual criticism of bills of this kind is that they carve out a special exemption for one industry rather than addressing the tax burden across-the-board or comprehensively.

POSITIONS:

Indicating support for the bill before the House Tax Policy Committee were representatives of TTX Company; the Union Tank Car Company; GE Rail Services Corporation; and GATX Corporation. (5-16-00)

The Department of Treasury is opposed to the bill. (5-16-00)

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.

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