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SFA BILL ANALYSIS

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Senate Bill 374 (as passed by the Senate)
Sponsor: Senator Glenn D. Steil
Committee: Economic Development, International Trade and Regulatory Affairs

Date Completed: 4-15-99

RATIONALE

The Michigan Renaissance Zone Act provides tax exemptions, deductions, and credits for up to 15 years to encourage business and residential development in economically depressed neighborhoods. These communities face multiple challenges to economic development, such as deteriorated infrastructures and abandoned residential and commercial sites.

The Act contains several notification requirements concerning businesses that relocate. A business located in a qualified local governmental unit that relocates from outside a renaissance zone into a zone in the same local unit may not receive the tax waivers unless the governing body of that local government approves the relocation of the business. For example, a business in local unit A that relocates into a renaissance zone within local unit A may receive tax waivers only with approval from A's city council. In addition, if a business relocates more than 25 full-time equivalent jobs from one or more local units other than a local unit in which a renaissance zone is located, to a local unit within a renaissance zone, the Act requires notification of the Michigan Jobs Commission and notification and approval of the local governmental unit from which the jobs are being relocated. For example, if a business in local unit B, which does not have a renaissance zone, relocates more than 25 jobs to a renaissance zone in local unit C, the business must notify the Michigan Jobs Commission and notify and receive approval from local unit B to receive the tax waivers provided under the Act. The current Act, however, does not require the notification of or approval from local unit D, which has a renaissance zone, if a business relocates more than 25 jobs from local unit D to a renaissance zone within local unit E.

In addition, the Act provides that the tax exemptions, credits, and deductions do not apply to a person or business that is delinquent in the payment of certain taxes, including the single business tax, the income tax, the city income tax, and the general property tax. It has been suggested that local units should have the responsibility of determining whether a person was delinquent in paying the city income tax or the property tax, in order to create some flexibility in regard to the denial of the tax waivers.

CONTENT

The bill would amend the Michigan Renaissance Zone Act to modify the notice and approval requirements that apply when a business relocates more than 25 jobs to a renaissance zone. The bill also provides that an individual or business would not be eligible for a tax deduction, exemption, or credit under the Act if it were substantially delinquent in its payment of the city income tax or the general property tax, as determined by the local unit of government.

Under the bill, an individual who was a resident of a renaissance zone, a business that was located and conducted business activity within a renaissance zone, or a person that owned property located in a renaissance zone would not be eligible for an exemption, deduction, or credit allowed by the Act for the taxable year if the individual, business, or person were substantially delinquent, as determined by the qualified local governmental unit in which the renaissance zone was located, under the City Income Tax Act and/or the General Property Tax Act. Currently, an individual, business, or property owner is not eligible for a tax deduction, exemption, or credit if it is delinquent under specified tax laws, including the Single Business Tax Act, the Income Tax Act, the City Utility Users Tax Act, the City Income Tax Act, and the General Property Tax Act. The bill would delete these references to the City Income Tax Act and the General Property Tax Act.

Currently, if a business relocates more than 25 full-time equivalent jobs from one or more local governmental units other than a local unit in which a renaissance zone is located, to a local unit within a renaissance zone, the business must notify the Michigan Jobs Commission and the local unit from which the jobs are being relocated. The bill provides, instead, that a business that relocated more than 25 full-time equivalent jobs to a renaissance zone would have to give notice of the relocation to the Michigan

Strategic Fund in the Department of Management and Budget and the local governmental unit from which the jobs were being located. (This would not apply if approval of the relocation were obtained from the local unit in which the renaissance zone was located, in the case of a business relocating within the same local unit from outside a renaissance zone into a zone.) As currently provided, the business would not be eligible for the exemptions, deductions, or credits if the local unit from which jobs were being relocated adopted a resolution objecting to the relocation, until the local unit rescinded its objection by resolution.

MCL 125.2690

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The bill would enable a local governmental unit with or without a renaissance zone to approve or disapprove the relocation of more than 25 full-time equivalent jobs to a renaissance zone in another local unit. The purpose of the tax exemptions, deductions, and credits is to encourage growth in the areas where the renaissance zones are located, but not at the expense of other Michigan communities, including other Michigan renaissance zone communities. Under the current Act, a business that relocates jobs from a local unit without a renaissance zone to a renaissance zone in another local unit may be prevented from receiving the tax waivers granted under the Act, while a business that relocates jobs from a local unit with a renaissance zone to a renaissance zone in another local unit does not risk losing the tax waivers provided under the Act.

Supporting Argument

The bill provides that a resident, business, or property owner in a renaissance zone would not be eligible for an exemption, deduction, or credit allowed by the Act if the resident, business, or property owner were substantially delinquent under the City Income Tax Act and/or the General Property Tax Act. Reportedly, some businesses have not paid the small debt retirement assessment, and therefore would be ineligible for the tax reductions. By providing for the denial of tax waivers if someone were "substantially" delinquent, and making local units responsible for determining delinquency, the bill would give local units some flexibility in denying, or continuing to allow, the tax exemptions, deductions, and credits. Otherwise, disallowing the tax reductions for a person whose delinquency is insignificant might undermine the redevelopment of distressed neighborhoods.

Supporting Argument

Earlier this year, Governor Engler vetoed a similar proposal (House Bill 5365 from the 1997-98 session) that also would have addressed business relocation objections and substantially delinquent payments. In addition, House Bill 5365 contained provisions to extend tax exemptions and credits to businesses outside of a renaissance zone, which is why the Governor vetoed the bill. The Governor's veto message stated the following:

"This amendment [business relocation objection provision] corrects an oversight in the original act that extended this option only to those local governments in which a Renaissance Zone was not already located. Also, the bill gives local governments some flexibility in determining whether or not individuals and businesses located within a Renaissance Zone are substantially delinquent in paying their taxes... These amendments are appropriate and logical... I encourage the members of the 90th Legislature of the State of Michigan to pass legislation providing for the sensible amendments to the Michigan Renaissance Zone Act previously discussed."

Opposing Argument

The bill would interfere with legitimate business decisions and eliminate competition between local units with renaissance zones by allowing the local units with renaissance zones to object a business relocation of more than 25 jobs to a renaissance zone in another local unit.

Legislative Analyst: N. Nagata

FISCAL IMPACT

This bill would increase State and local revenue by preventing relocated businesses from receiving renaissance zone tax reductions, unless requirements of the bill were met. Local units would be able to object to business relocations, as specified in the bill, to renaissance zones. Additionally, local units in the renaissance zones would determine substantially delinquent city income tax and taxes, fees, and special assessments collected under the general property tax. Taxpayers that were substantially delinquent would not be eligible for renaissance zone tax reductions.

Fiscal Analyst: R. Ross

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