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SFA BILL ANALYSIS

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Senate Bill 374 (as enrolled) **PUBLIC ACT 36 OF 1999**
Sponsor: Senator Glenn D. Steil
Senate Committee: Economic Development, International Trade and Regulatory Affairs
House Committee: Economic Development

Date Completed: 6-11-99

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 State and notify and receive approval from local unit B to receive the tax waivers provided under the Act. The Act, however, did not require the notification of or approval from local unit D, containing a renaissance zone, if a business relocated 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. It was suggested that local units should have the responsibility of determining whether a person is 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 amended 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 is not eligible for a tax deduction, exemption, or credit under the Act if it is substantially delinquent in its payment of the city income tax or the general property tax, as defined in a written policy by the local unit of government.

Under the bill, an individual who is a resident of a renaissance zone, a business that is located and conducts business activity within a renaissance zone, or a person who owns property located in a renaissance zone is not eligible for an exemption, deduction, or credit allowed by the Act for the taxable year if the individual, business, or person is substantially delinquent, as defined in a written policy by the qualified local governmental unit in which the renaissance zone is located, under the City Income Tax Act and/or the General Property Tax Act. Previously, an individual, business, or property owner was not eligible for a tax deduction, exemption, or credit if it was 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 deleted these references to the City Income Tax Act and the General Property Tax Act.

Previously, if a business relocated more than 25 full-time equivalent jobs from one or more local governmental units other than a local unit in which a renaissance zone was located, to a local unit within a renaissance zone, the business had to notify the Michigan Jobs Commission and the local unit from which the jobs were being relocated. The bill provides, instead, that a business that relocates more than 25 full-time equivalent jobs to a renaissance zone must 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 are being located. (This does not apply if approval of the relocation is obtained from the local unit in which the renaissance zone is located, in the case of a business relocating within the same local unit from outside a renaissance zone into a zone.) As previously provided, the business is not eligible for the exemptions, deductions, or credits if the local unit from which jobs are being relocated adopts a resolution objecting to the relocation, until the local unit rescinds its objection by resolution. (The Michigan Strategic Fund is one of two entities that replaced the Jobs Commission.)

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 enables 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. Previously under the Act, a business that relocated jobs from a local unit without a renaissance zone to a renaissance zone in another local unit could be prevented from receiving the tax waivers granted under the Act, while a business that relocated jobs from a local unit with a renaissance zone to a renaissance zone in another local unit did 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 is not eligible for an exemption, deduction, or credit allowed by the Act if the resident, business, or property owner is 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 are ineligible for the tax reductions. By providing for the denial of tax waivers if someone is “substantially” delinquent, and making local units responsible for determining delinquency, the bill gives 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. In regard to the relocation language, 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 interferes with legitimate business decisions and eliminates 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 will increase State and local revenue by preventing relocated businesses from receiving renaissance zone tax reductions, unless requirements of the bill are met. Local units will be able to object to business relocations, as specified in the bill, to renaissance zones. Additionally, local units in the renaissance zones will determine substantially delinquent city income tax and taxes, fees, and special assessments collected under the general property tax. Taxpayers that are substantially delinquent will not be eligible for renaissance zone tax reductions.

Fiscal Analyst: R. Ross

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