

Senate Fiscal Agency
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SFA**BILL ANALYSIS**

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Senate Bill 573 (as enrolled)
Sponsor: Senator Mike Rogers
Senate Committee: Economic Development, International Trade and Regulatory Affairs
House Committee: Tax Policy

Date Completed: 6-11-99

RATIONALE

The Michigan Economic Growth Authority Act was enacted in 1995 to enable the State to capture a larger market share of the growth of Michigan-based firms as well as compete more favorably for investments from out-of-State business, by offering a tax incentive program to businesses. The Act created the Michigan Economic Growth Authority (MEGA) to determine which businesses are eligible to receive single business tax (SBT) credits based on the number of new jobs they create. An eligible business may apply to MEGA to enter into a written agreement that authorizes an SBT credit. The Authority may enter into an agreement if it determines that the eligible business creates at the facility, within 12 months of the expansion or location, a minimum of 75 qualified new jobs if expanding in this State, 150 qualified new jobs if locating in this State, or 25 qualified new jobs if the facility is located in a neighborhood enterprise zone or in a Federally designated empowerment zone, rural enterprise community, or enterprise community. An eligible business does not include a retail establishment, professional sports stadium, or that portion of an eligible business used exclusively for retail sales.

Under the SBT Act, for tax years beginning after December 31, 1994, and for a period of up to 20 years as determined by MEGA, a taxpayer that is an authorized business may claim an SBT credit for the amount certified each year by MEGA, up to the amount of its payroll attributable to employees who perform qualified new jobs multiplied by the tax rate. Further, for the same tax years plus any carryforward years allowed, an authorized business may claim an SBT credit equal to the tax liability attributable to authorized business activity. If the SBT credit exceeds the tax liability of the taxpayer for the tax year, the excess must be refunded to the taxpayer. The Act prohibits a taxpayer from claiming SBT credits until MEGA has issued a certificate to the taxpayer. The taxpayer must attach the certificate to the tax return on which an SBT credit is claimed. Credit may not be claimed if the taxpayer's initial certification is issued after December 31, 1999.

Since the enactment of the Michigan Economic Growth Authority Act, 59 businesses with long-term commitments have been granted SBT tax credits. Some people believe that in order to continue attracting more businesses to Michigan and encouraging more firms to stay and expand, the tax incentive program should be continued. Therefore, it has been suggested that the deadline for the initial certification of businesses to qualify for SBT credits be extended.

CONTENT

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 MEGA for tax credits.

MCL 208.37c & 208.37d

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 the State to retain the leverage it needs to attract the most promising commercial and industrial projects. The SBT credits offer the State protection for its investment in attracting business and encouraging business expansion. The tax credits take effect only after a business locates or expands in Michigan and creates and maintains a minimum number of jobs; local participation is required; and the amount of incentives offered for each project is determined by MEGA. Extending the sunset would allow the tax credit program to be reviewed and evaluated again based on its track record for encouraging economic development. In addition, the bill would allow the State to keep a critical negotiating tool to convince businesses to locate and expand in Michigan, yet provide safeguards to ensure that businesses uphold their agreement to provide jobs and invest in the State.

Opposing Argument

The SBT incentive program is too narrowly targeted, expensive, and unnecessary. The State instead, should concentrate on general business tax cuts in order to benefit all firms in a fair manner.

Response: Reportedly, new jobs attracted or retained as a result of the 17 MEGA projects granted in 1998 may lead to more than \$350 million in additional tax revenue for the State. Without the SBT credits, some businesses would have built their plants in other states. According to the Michigan Jobs Commission, MEGA projects have created or retained an estimated 14,500 direct jobs and 19,000 spin-off jobs for Michigan.

Legislative Analyst: N. Nagata

FISCAL IMPACT

It is not possible to estimate the impact this bill would have on State revenue because there is no way to reasonably estimate the following factors: 1) the number of businesses that would apply for and be granted the MEGA tax credits, 2) the number of jobs that would be created, 3) whether these businesses would make investments in Michigan even without these special tax incentives, and 4) to what extent businesses already in Michigan would be affected, positively or negatively, by these new business expansions. Since 1995, when the first MEGA credits were awarded, 59 businesses have been granted tax credits totaling \$349 million. The average business among these 59 received tax credits totaling \$5.9 million spread over a period of 15.9 years.

Fiscal Analyst: J. Wortley

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.