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SBT CREDIT: HEMATITE PELLETS

Senate Bill 516 as passed by the Senate
First Analysis (12-11-01)

Sponsor: Sen. Don Koivisto
House Committee: Tax Policy
Senate Committee: Finance

THE APPARENT PROBLEM:

The House of Representatives has adopted two resolutions this year on June 13, expressing concern over the condition of the steel industry in the United States. House Resolution 137, which memorialized the Congress of the United States to enact the Steel Revitalization Act of 2001, said:

In recent years, the American steel industry -- a vital gauge of our long-term economic strength and security -- has suffered a precipitous decline. Our steel production capacity, the size of the workforce in this industry, and efforts to modernize facilities have all suffered from the effects of trade practices that include other nations selling steel in the United States at prices below what the steel costs those nations to make . . . . As a result, more and more of the steel used in the United States is produced elsewhere. This has a devastating impact on steelworkers and may have ominous long-term consequences for our nation.

House Resolution 36 memorialized the President and Congress and the federal Department of Commerce to act to halt illegal dumping of foreign steel. It said,

Our steel industry overcame the economic difficulties of the 1980s through commitment, hard work, and cooperation between management and labor. The American steel industry was once again the best in the world. Even the best-run company, however, cannot withstand an onslaught of steel being dumped at cut-throat prices. Steel imports in May 1998 increased 28.5 percent from the level of the previous year. Through June 1998, imports from Japan were up 113.7 percent, while imports from Korea rose 89.5 percent. The dumping of steel on the United States markets by foreign competitors poses a threat to Americans who work hard to earn a living in the steel and iron ore industries . . . We urge that immediate actions be taken to determine whether steel or steel products coming from Australia, China, South Africa, Ukraine, Kazakhstan, Indonesia, India, Japan, Russia, South Korea, Mexico, or Brazil are being dumped on the American market and whether those countries are abiding by the spirit and letter of international trade agreements . . . We urge American trade officials to take all necessary actions to enforce applicable trade agreements . . ., including, if necessary, imposition of a one-year ban of all imports from any country determined to be in violation of the spirit and letter of international trade agreements with respect to imports of steel products into the United States.

[As this analysis was being written, the U.S. International Trade Commission was reported to have recommended to President Bush the protection of 16 steel product lines (about four-fifths of imported steel) with tariffs ranging from 5 percent to 40 percent on foreign imports.]

Things have only gotten worse for the industry since these resolutions were adopted. Bethlehem Steel in October sought the protection of federal bankruptcy court, joining some 20 other U.S. steel companies filing bankruptcy over the past two years, according to news accounts. LTV Steel is currently seeking a federal bankruptcy judge's permission to close operations in Ohio, Indiana, and Illinois that employ about 7,500 workers. LTV is a part owner of the Empire Mine operated by the Cleveland-Cliffs Iron Company in the Upper Peninsula's Marquette County. That mine, which had about 900 employees, recently shut down operations, leaving only one iron ore mine operating in the Upper Peninsula, the Tilden Mine, whose largest customer is Rouge Steel in Dearborn, according to testimony before the House Tax Policy Committee. Legislation has been introduced that would provide tax relief to the state's steel and mining industry.

THE CONTENT OF THE BILL:

The bill would amend the Single Business Tax Act to allow a taxpayer to claim a credit against the tax equal to $1 per long ton of qualified low-grade hematite (in pellet form) consumed in an industrial or manufacturing process that was the business activity of the taxpayer. The credit could be claimed for tax years beginning after December 31, 2000 and would be based on hematite consumed on and after January 1, 2000.

"Qualified low-grade hematite" would mean pellets produced from low-grade hematite iron ore mined in the United States. "Consumed in an industrial or manufacturing process" would mean a process in which low-grade hematite was used as a raw material in the production of pig iron or steel. "Low-grade hematite" would mean any hematite iron formation not of sufficient quality in its original mineral state to be mined and shipped for the production of pig iron or steel without first being drilled, blasted, crushed, and ground very fine to liberate the iron minerals and for which additional beneficiation and agglomeration were required to produce a product of sufficient quality to be used in the production of pig iron or steel.

If the credit allowed for a tax year exceeded the firm's tax liability, the excess would not be refunded but could be carried forward as an offset to the tax liability for five years or until the excess credit (and any unused carryforward) was used up, whichever occurred first.

MCL 208.39d

FISCAL IMPLICATIONS:

The Senate Fiscal Agency has reported that the Tilden mine produces 5 million to 5.8 million tons of pellets annually. It notes that about 3.3 tons of crude ore produces 1 ton of pellets, implying that 15 million to 20 million tons of low-grade hematite are processed. If the credit applies to pellets [as the bill as currently written provides], the potential fiscal impact would be an SBT revenue loss of $5 million to $5.8 million. The agency says, however, that the actual impact would likely be lower. The bill's impact, says the SFA, would depend on the demand for iron ore; the use of hematite deposits at the Tilden mine and other U.S. mines [since the bill applies to hematite mined anywhere in the U.S.]; and the before-credit tax liability of eligible taxpayers. The last factor would lower the impact of the bill, says the agency, because the affected taxpayers have had limited before-credit SBT liability in recent years. The SFA cites the estimates of industry representatives that put the impact of the bill at $1.5 million for fiscal year 2001-02 (assuming the bill continues to apply to pellets). If business conditions improved, and more pellets were used, the fiscal impact would increase. (SFA floor analysis dated 11-8-01)

ARGUMENTS:

For:

The bill would provide much-needed tax advantages to assist the state's steel and mining industries. These industries are said to be in crisis. The reduction in single business taxes for steel companies based on the use of hematite pellets will create an incentive for Rouge Steel and other steel companies to use pellets from the Tilden Mine in the Upper Peninsula, which produces the hematite. One large mine in the U.P. recently ceased operations and the future of the other is threatened. These operations are vital to the economy of that part of the state, both through direct employment and indirectly through related economic activity. The livelihood of thousands of people are at stake. While the issue is obviously of national and international proportions, this bill will offer some state-based tax relief and economic advantages to companies in Michigan.

Against:

Carving out a special exception for one kind of product or industry is not generally considered to be good tax policy.

POSITIONS:

Representatives of Rouge Steel and of Cleveland-Cliffs Iron Co. testified in support of the bill. (12-5-01)

The Lake Superior Community Partnership has indicated support for the bill. (12-5-01)

The Michigan Association of Counties has indicated support for the bill. (12-5-01)

The Department of Treasury is opposed to the bill. (12-7-01)

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.