

Senate Bill 1500 (Substitute H-1)
Sponsor: Sen. Bill Bullard, Jr.

Addendum to SFA Analysis (12-11-02)

Senate Committee: Finance
House Committee: Tax Policy

ADDENDUM TO SENATE FISCAL AGENCY ANALYSIS OF SB 1500 DATED 11-27-02:

HOUSE COMMITTEE ACTION:

The House Committee on Tax Policy reported a substitute version of the bill that rewrites the calculation of the SBT credit available to businesses in a renaissance zone. The main change in the substitute is the new calculation for businesses that were already located and conducting business activity in a zone before the new calculation formula takes effect (the so-called grandfather clause). The basic thrust and intent of the bill remain the same. The aim is to prevent firms that simply put "storefront" operations in a zone and who have little or no property and payroll outside of the zone from erasing their entire SBT liability. This would be the case where a firm had substantial sales in the state but little or no property and payroll (other than the zone storefront). This situation arises because the SBT takes into account a firm's property, payroll, and sales, and puts the greatest weight on sales, while the calculation for credits in a renaissance zone relies only on a ratio of property and payroll in the zone to property and payroll outside the zone. The new calculation would apply to tax years beginning after December 31, 2002 and is as follows.

For a business that first locates and begins conducting business activity within a renaissance zone after November 30, 2002, the credit would be equal to the lesser of 1) the tax liability attributable to business activity conducted in a zone in the tax year; or 2) 10 percent of adjusted services performed in a designated renaissance zone. [This is same as the Senate-passed version.]

The term "adjusted services performed in a designated renaissance zone" means either 1) the sum of the taxpayer's payroll for services performed in a designated renaissance zone plus an amount added under Section 9(4)(c) [for depreciation expenses, etc.] for the tax year for real property located in the designated renaissance zone; or 2) for a partnership, limited liability company, S corporation, or individual, the amount described above plus the product of business income, the apportionment factor under chapter 3, and the renaissance zone business activity factor [i.e., apportioned business income].

For a business that was located and conducting business activity within a renaissance zone before December 1, 2002, or a business that had entered into a purchase agreement or lease agreement for personal property to be used for business activity in a zone, the credit would be the greater of 1) the amount as calculated above for a new business; or 2) the lesser of a) the tax

liability attributable to business activity in a zone in the tax year or b) the credit allowed for the tax year beginning in 2002 plus two percent of the increase in payroll and depreciation expenses for the tax year over those amounts in the tax year beginning 2002.

The House substitute would also add a definition of “new property” to the section of the act dealing with NextEnergy credits.

POSITIONS:

The Department of Treasury supports the bill. (12-11-02)

The Michigan Manufacturers Association supports the bill. (12-11-02)

The Michigan Chamber of Commerce is neutral on the bill. (12-11-02)

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.