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Senate Bill 516 (as reported without amendment)
Sponsor: Senator Don Koivisto
Committee: Finance

CONTENT

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 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.

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

Under the bill, "low-grade hematite" would be any hematite iron formation that was 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. "Qualified low-grade hematite" would mean hematite iron ore mined in the United States.

Proposed MCL 208.39d

Legislative Analyst: G. Towne

FISCAL IMPACT

The bill would reduce State General Fund revenues by lowering single business tax (SBT) receipts. Low-grade hematite from the Tilden mine near Marquette, the only Michigan mine from which hematite is mined, produces 5.0 million to 5.8 million tons of pellets annually. Approximately 3.3 tons of crude ore produce 1.0 ton of pellets, implying that 15.0 million to 20.0 million tons of low-grade hematite are processed.

It is unclear whether the credit proposed by the bill applies to the consumption of the crude ore or the pellets. If the credit applies to the crude ore, then the bill could have a potential impact of \$15.0 million to \$20.0 million per year. If the credit applies to the pellets, then the bill could have a potential impact of about \$5.0 million to \$5.8 million per year. In either case, the actual effect of the bill is likely to be lower.

The bill's impact depends significantly upon three factors: 1) conditions affecting the demand for iron ores, 2) use of hematite deposits at the Tilden mine and other U.S. mines, and 3) the before-credit SBT liability of affected taxpayers. The first factor varies significantly from year to year and would affect the bill's impact. The second factor would likely increase the cost of the bill. The bill would extend the credit to U.S. hematite rather than only hematite from Michigan. Because credits are not subject to apportionment, any taxpayer filing the Michigan SBT could claim the credit for using hematite anywhere in the U.S. It is unknown if any other

mines extract hematite or how many Michigan SBT taxpayers use hematite from mines elsewhere in the U.S. The third factor would lower the impact of the bill. In recent years, affected taxpayers have exhibited limited before-credit SBT liability for several reasons. According to industry representatives, the third factor would lower the impact of the bill to approximately \$1.5 million in FY 2001-02 if the credit applies to the pellets. If the credit applies to the crude ore, then the impact would be lowered to approximately \$5.0 million per year. However, if business conditions improve for the affected taxpayers, the bill's impact would increase, regardless of whether the credit applies to the crude ore or the pellets.

Date Completed: 11-8-01

Fiscal Analyst: D. Zin