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Senate Bill 516 (as introduced 5-30-01)
Sponsor: Senator Don Koivisto
Committee: Finance

Date Completed: 11-6-01

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. The only Michigan mine that produces iron from hematite is the Tilden mine near Marquette. The other Michigan mine, the Empire mine, excavates magnetite. The hematite production at the Tilden mine accounts for 58% to 63% of the mine's total production. In 2000, the Tilden mine produced 7.2 million tons of pellets from crude ore; and was forecasted to operate near capacity (of 7.8 million tons) in 2001. Approximately 3.3 tons of crude ore are needed to produce 1.0 ton of pellets, implying that the Tilden mine produced approximately 15.0 million tons of low-grade hematite in 2000. The bill would provide a credit of \$1 per ton of low-grade hematite. Absent other assumptions, the bill could have a potential impact of \$15.0 million per year, although the actual effect of the bill would likely be lower.

The impact of the bill would depend significantly upon three factors: 1) market and demand conditions affecting the demand for iron ores, 2) the use of hematite deposits both at the Tilden mine and with other mines in the U.S., and 3) the before-credit SBT liability of affected taxpayers. The first factor is subject to significant swings from year to year and may cause the impact to differ from the estimate provided. The second factor would likely increase the cost of the bill. The bill would restrict the credit to hematite mined in the U.S. rather than

only hematite from Michigan. Since credits are not subject to apportionment, the bill would allow any taxpayer filing the Michigan SBT to 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. A number of taxpayers affected by the bill have national and/or international operations and apportion their tax base. Similarly, a number of the affected taxpayers have struggled financially in recent years and at least one has recently filed bankruptcy. Consequently, the before-credit SBT liability of the affected taxpayers is not expected to be significant. According to information received from the affected industry, the third factor would likely lower the impact of the bill to approximately \$1.5 million in FY 2001-02. However, if business conditions improve for the affected taxpayers, the bill's impact would increase.

This estimate is preliminary and will be revised once additional information is received.

Fiscal Analyst: D. Zin