Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

SFA BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 1320 (Substitute S-3 as reported)
Sponsor: Senator Leon Stille
Committee: Finance

CONTENT

The bill would amend the General Property Tax Act to create a personal property tax exemption for certain property certified for exemption by the Michigan Next Energy Authority pursuant to the Michigan Next Energy Authority Act (proposed by Senate Bill 1316). The exemption would apply to taxes levied after December 31, 2002, and before January 1, 2013, and would apply to the following property: an alternative energy system; an alternative energy vehicle; all personal property of an alternative energy technology business; and the personal property of a business that was not an alternative energy technology business and that was used solely for the purpose of researching, developing, or manufacturing an alternative energy technology.

("Alternative energy technology business", "alternative energy system", and "alternative energy vehicle" would mean those terms as defined in the Michigan Next Energy Authority Act. Senate Bill 1316 (S-5) would create that Act and establish the Michigan Next Energy Authority, which would have to certify an alternative energy system, an alternative energy vehicle, and the personal property specified in Senate Bill 1320 (S-3) as eligible for the personal property tax exemption.)

Proposed MCL 211.9i Legislative Analyst: George Towne

FISCAL IMPACT

The bill would reduce both State and local revenues by an unknown and potentially significant amount. The bill would exempt certain personal property from property taxes, thereby reducing State revenues received under the State education tax to the School Aid Fund. By reducing local property taxes the bill also would increase expenditures from the School Aid Fund. Because the bill would exempt only property not currently subject to taxation, the revenue loss would reflect a loss of future revenues from new property and not a reduction from revenues currently received from existing property.

The potential impact of the bill could be significant. General Motors Corporation, Daimler-Chrysler, and Ford Motor Company all have publicly reported making significant expenditures, in the range of hundreds of millions of dollars each year, on research and development of the types of property affected by the bill. For example, if the expenditures for these taxpayers totaled $500 million per year and 50% of that expenditure were on personal property covered by the bill, then the bill would exempt $250 million per year of personal property from the property tax. As a result, in the first year the bill was effective, School Aid Fund revenues would be reduced by $750,000 and local unit revenues would be reduced by approximately $6.8 million. However, over time the impact would accumulate, as new property was added each year. If annual expenditures continued at this level, by 2005 the calendar year impact of the bill would reduce School Aid Fund revenues by approximately $2.3 million and local unit revenues by approximately $20.3 million.
The impact of the bill likely would be greater because the example essentially reflects only the

impact on the "Big 3" automotive manufacturers. Numerous other firms, some of considerable size, also already participate in business related to the development of alternative energies, including: Visteon, Borg Warner, Bosch, Panasonic, Federal-Mogul, 3M, Honeywell, AlliedSignal, Siemens AG, Toyota, and Siemens Westinghouse. The total expenditures by all taxpayers for property that would be affected by the bill is unknown. As alternative energy products become more commercially viable, other firms, including energy utilities such as Detroit Edison and Consumers Energy, are likely to become participants. Despite the expected increase in business activity related to alternative energies as they become more commercially viable, a study by the U.S. Department of Energy, which analyzed much more substantial tax and grant incentives to promote the development and use of alternative energies such as fuel cells, estimated that 98% of the tax benefits would accrue to business activity that would have taken place in the absence of any of the additional tax and grant incentives.

The bill would increase expenditures from the School Aid Fund because local units would lose revenues from the 18 mills levied locally for school purposes. As a result, under the example above, the bill also would increase School Aid Fund expenditures by approximately $2.3 million in calendar year 2003 and by $6.8 million by calendar year 2005.

This fiscal impact is preliminary and will be revised as additional information becomes available.

Date Completed: 6-4-02 Fiscal Analyst: David Zin