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**SFA****BILL ANALYSIS**

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Senate Bill 1500 (Substitute S-1 as reported)  
Sponsor: Senator Bill Bullard, Jr.  
Committee: Finance

Date Completed: 11-26-02

### **RATIONALE**

The Michigan Renaissance Zone Act provides for the designation of renaissance zones in which businesses and residents receive certain tax exemptions and credits. Various tax statutes prescribe the specific tax exemptions and/or credits that may be claimed. Regarding business taxes, the Single Business Tax (SBT) Act provides a credit for general business activity conducted within a renaissance zone. Public Act 531 of 2002 amended the SBT Act to allow another credit for certain qualified business activity. Under the SBT Act, "qualified business activity" means research, development, or manufacturing of an alternative energy system, vehicle, or technology, an alternative energy marine propulsion system, or renewable fuel as those terms are defined in the Michigan Next Energy Authority Act. The credits for business activity conducted in a renaissance zone and for qualified business activity are determined by similar calculations prescribed in the SBT Act, using specific formulas that attempt to measure a business's activity within and outside a renaissance zone compared with the business's total activity in the State; thus the calculations aim to limit the credits to actual activity within a zone.

Reportedly, some businesses have placed storefront offices in renaissance zones, and then attempted to claim the credit for business activity that actually occurred outside the zones. It has been suggested that the calculation of the credits be changed to prevent such claims.

### **CONTENT**

**The bill would amend the Single Business Tax Act to revise the calculation of the credit allowed for a business located and**

**conducting business activity within a renaissance zone, and the calculation of the credit allowed for an eligible taxpayer that has qualified business activity. In either case, for tax years beginning after December 31, 2002, the credit would equal either the amount calculated under the present formula (which the bill would modify for alternative energy activity), or an amount based on a percentage of adjusted payroll, whichever was less.**

Under the Act, for a business located in and conducting business activity in a designated renaissance zone, the credit is equal to the amount of the taxpayer's "tax liability attributable to business activity conducted within a renaissance zone". The bill would allow a taxpayer to claim either that amount or 10% of adjusted payroll for services performed in a designated renaissance zone, whichever was less. The present formula for determining "tax liability attributable to business activity conducted within a renaissance zone" is based on the ratio of the taxpayer's property and payroll in a renaissance zone, to the taxpayer's property and payroll in the State. The bill would retain that formula but would refer to it as the "renaissance zone business activity factor".

Currently, for tax years beginning after 2002, an eligible taxpayer (a taxpayer that has proof of certification of qualified business activity under the Michigan Next Energy Authority Act) may claim a credit for a tax year equal to the amount by which the taxpayer's tax liability attributable to qualified business activity for the tax year exceeds the taxpayer's "baseline tax liability attributable to qualified business activity". Under the bill, an eligible taxpayer could claim the lesser of that amount or 10%

of the amount by which the taxpayer's adjusted payroll for qualified business activity performed in Michigan outside of a renaissance zone for a tax year, exceeded the taxpayer's adjusted payroll for qualified business activity performed in Michigan outside of a renaissance zone for the 2001 tax year.

Presently, "baseline tax liability attributable to qualified business activity" means the taxpayer's tax liability for the 2001 tax year 1) multiplied by a) the ratio of the value of the taxpayer's property used for qualified business activity and located in this State outside of a renaissance zone for the 2001 tax year, to the value of all of the taxpayer's property in this State for that tax year, plus b) the ratio of the taxpayer's payroll for qualified business activity performed outside of a renaissance zone for the 2001 tax year to all of the taxpayer's payroll for that tax year in this State; and 2) divided by two. Under the bill, "baseline tax liability attributable to qualified business activity" would mean the taxpayer's tax liability for the 2001 tax year multiplied by the taxpayer's "alternative energy business activity factor for the 2001 tax year". That term essentially would retain the present formula, but would refer to the ratio of the taxpayer's payroll for qualified business activity performed "in this state" outside of a renaissance zone for the tax year, to all of the taxpayer's payroll "in this state" for that year. The formula in the bill also would refer to the tax year for which the factor was being calculated, rather than the 2001 tax year.

The bill would define "adjusted payroll for services performed in a designated renaissance zone" and "adjusted payroll for qualified business activity performed in this state outside of a renaissance zone". Both terms would refer to total salaries and wages before the deduction of personal or dependency exemptions, unless a taxpayer was a partnership, limited liability company, S corporation, or individual. In that case, adjusted payroll would include total salaries and wages plus the result of multiplying business income, the apportionment factor, and either the renaissance zone business activity factor or the alternative energy business activity factor.

MCL 208.39b & 208.39e

## **ARGUMENTS**

*(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)*

### **Supporting Argument**

Renaissance zones were created as a tool to revitalize certain areas by helping to generate and/or increase economic activity. Some communities, both urban and rural, face multiple challenges to economic development, such as deteriorated infrastructures and abandoned residential and commercial sites. To create incentives to invest, build, and live in these areas, the law provides for the designation of a limited number of renaissance zones, in which businesses and individuals may claim certain tax exemptions and credits.

The SBT Act provides a credit against the tax for taxpayers that conduct business activity within a renaissance zone. To determine the value of this credit, the Act prescribes calculations that attempt to separate a taxpayer's business activity in a zone, which is eligible for the credit, from its business activity outside a zone, which is not eligible. Reportedly, some taxpayers have placed simple storefronts in a zone, and then claimed the credit for business activity outside the zone by manipulating the calculations. By altering the calculation in specific ways, the bill should end this practice and ensure that credits claimed for business activity within a renaissance zone were legitimate. The bill also would amend the method by which the credit may be claimed for qualified business activity (related to the research and development of alternative energy systems within a zone). Even though this credit is not available until after the 2002 tax year, the calculation of the credit also needs to be changed to prevent those without a legitimate basis for the credit from claiming it.

Legislative Analyst: George Towne

## **FISCAL IMPACT**

The bill would increase General Fund revenues by a likely minimal amount. The bill would limit the credit that may be claimed for activities in a renaissance zone. The bill would affect credits under current law as well as the recently enacted credit for alternative energy activities. The bill would attempt to limit the

credits to reflect activity that actually occurs within or is reflected by the presence of the renaissance zone. Current law apparently allows some taxpayers to claim credits for amounts based upon more than the activity in the renaissance zones would suggest and more than was originally estimated given levels of activity within the zones.

For the existing renaissance zones, the bill would reduce some taxpayers' credits. The amount of revenue involved is not expected to be significant, but could total several million dollars. For those provisions affecting credits related to alternative energy activities, the bill would have no effect because no credits have been awarded and no tax revenue has been received from the zones and the fiscal impact estimated for this credit assumed that it would accurately reflect the assumed level of business activity within the zones.

Fiscal Analyst: David Zin

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.