



**House  
Legislative  
Analysis  
Section**

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**PFIZER-RELATED TAX INCENTIVES**

**House Bill 4454 as introduced**  
**Sponsor: Rep. Jacob Hoogendyk**

**House Bill 4472 as introduced**  
**Sponsor: Rep. Alexander C. Lipsey**

**Committee: Commerce**  
**First Analysis (5-7-03)**

***THE APPARENT PROBLEM:***

During the 2001-2002 session, the legislature enacted tax incentives for the large pharmaceutical firm that was expected to emerge from the purchase of Pharmacia by Pfizer, Inc. Although Pfizer is a New York-based company and Pharmacia was headquartered in New Jersey, both had significant operations in Michigan. Pharmacia was described as the largest employer in Kalamazoo County, with more than 6,300 people employed there in four campuses, many in well-paying, highly skilled, research and development jobs. Pfizer was said to have about 3,000 research and development employees in Ann Arbor, as well as smaller manufacturing and research facilities in Holland. The prospect of the two companies combining, with the expected consolidation and relocation of operations, understandably created a great deal of anxiety in the affected communities and elsewhere in the state. Public Act 588 of 2002 granted "an eligible pharmaceutical company" a single business tax credit of up to \$10 million per year based on qualified research expenses. Public Act 587 allowed the Michigan Strategic Fund to designate a renaissance zone as a "pharmaceutical renaissance zone" in which a number of state and local taxes would be reduced or eliminated. (See the analysis by the House Legislative Analysis Section of House Bill 6073 and Senate Bill 1315 dated 10-21-02)

Two other tax incentive proposals were also introduced and discussed last session, but were not enacted. One offered an eligible pharmaceutical company the opportunity to apply for a single business tax credit under the Michigan Economic Growth Authority (MEGA) program using a job creation standard similar to that already existing for high technology companies under state economic development statutes. The other would allow a local tax collecting unit to exempt from property taxes any new personal property of an eligible pharmaceutical

company. Those two proposals have been reintroduced.

Recently, the purchase of Pharmacia by Pfizer (reportedly for about \$60 billion) was finalized, and Pfizer has begun the process of reorganizing the operations of the new consolidated company, said to be the world's largest pharmaceutical firm. By some accounts, the company plans \$2.5 billion in cost savings worldwide. At the end of last month, Pfizer announced some of its reorganization plans, which proved to be somewhat of a mixed bag for local communities, particularly in southwestern Michigan, although overall they have been interpreted as evidence of the company's intention to maintain a significant presence in the state. According to press accounts, some jobs will be eliminated, some added, and some transferred. Research and development jobs apparently will be reduced in Kalamazoo and Holland but added in Ann Arbor. Manufacturing will continue in Holland and be expanded in Kalamazoo. Some Ann Arbor cancer research will be moved out of state. It appears that the number of jobs overall will be reduced, but it is not yet clear what the final impact will be.

State and local officials are trying to find ways to retain and perhaps even expand the company's operations in Michigan. This includes the use of large tax incentive programs. Among those are the MEGA single business tax credit and the local exemption of personal property that were first proposed in the previous legislative session.

***THE CONTENT OF THE BILL:***

Each of the bills would offer eligible pharmaceutical companies the opportunity for tax reductions, either through potential state-awarded single business tax credits or through potential locally awarded personal property tax exemptions. House Bill 4454 would

amend the Michigan Economic Growth Authority (MEGA) Act to make single business tax credits possible; House Bill 4472 would amend the General Property Tax Act to make personal property tax exemptions possible. Under the bills, the term “eligible pharmaceutical company” would apply to a company that:

- Is engaged primarily in manufacturing, research and development, and sale of pharmaceuticals.
- Has at least 8,500 employees located in Michigan, all of whom are located within a 100-mile radius.
- Has at least 5,000 employees engaged primarily in research and development of pharmaceuticals.
- For the purpose of single business tax credits, enters into a written agreement with the Michigan Economic Growth Authority no later than 18 months after the effective date of House Bill 4454.

House Bill 4454 would amend the Michigan Economic Growth Authority Act (MCL 207.803 et al.) to make the pharmaceutical companies eligible to apply for single business tax credits under the MEGA act using criteria similar (but not identical) to those applied now to high technology companies. It would allow a pharmaceutical company to apply for a credit if it expanded operations or located a facility in the state that created a minimum of five qualified new jobs within the first year (and maintained those jobs for the life of the credit). High technology companies are currently eligible to apply for a credit if they create five new jobs in the first year, although they must also create 25 qualified new jobs within the first five years and then must maintain those 25 new jobs for the life of the credit. (Other kinds of companies typically must create or maintain 75 qualified new jobs in the first year if expanding and 150 if relocating to the state.) There are a number of other conditions in statute that apply to all companies that a pharmaceutical company would also have to meet; for example, the average wage for retained and new jobs would have to be equal to or greater than 150 percent of the federal minimum wage (higher for high technology companies); the expansion, retention, or location would have to be dependent upon the awarding of credits; the local community would have to make a staff, financial, or economic commitment to the business; and the tax credits for the business would result in an overall positive fiscal benefit to the state.

MEGA and a pharmaceutical company that met the eligibility criteria and the job creation standards

could enter into a written agreement allowing the company a credit of a specified amount and for a specified duration (not to exceed 20 years) as determined by MEGA based on a number of factors, including the number of jobs, the wage levels, capital investments by the company, the potential impact on the state’s economy, and the nature of the contribution of local government units or local economic development corporations, among other things.

House Bill 4472 would amend the General Property Tax Act (MCL 211.9f) to allow the governing body of a local tax collecting unit to adopt a resolution exempting from the collection of taxes all new personal property owned or leased by eligible pharmaceutical companies located in that local tax collecting unit. This would apply 18 months after the bill took effect. Before acting on the resolution, the governing body of the local tax collecting unit would have to provide an opportunity for a hearing to the unit’s assessor and to the legislative body of each local unit that levies property taxes where the pharmaceutical companies are located (e.g., a school district).

### ***FISCAL IMPLICATIONS:***

There is no information at present.

### ***ARGUMENTS:***

#### ***For:***

These bills offer two kinds of tax incentives to help encourage Pfizer, Inc. to retain and expand its drug manufacturing and research and development operations in Michigan. Pfizer recently acquired Pharmacia, the drug company said to be Kalamazoo County’s largest employer. The new combined company (which remains known as Pfizer) has major operations in Ann Arbor, Kalamazoo County, and Holland. The reorganization of the company worldwide promises major cuts and shifts in operation, some of which have already been announced. (About 1,000 jobs from U.S. operations are being shifted to New York City, for example, according to a Pfizer press release.) State and local leaders are working to keep company operations and jobs in Michigan, and hope to minimize the impact of the reorganization of the world’s largest pharmaceutical company on communities in the state. The single business tax credits and property tax abatements available under these bills are predicated, as the bills are currently written, on the company maintaining 8,500 employees in the state and 5,000

employees engaged primarily in pharmaceutical research and development. The jobs at stake are well paying, highly skilled jobs of a kind that communities can ill afford to lose. Southwest Michigan could be particularly hard hit, as the presence of what was once Pharmacia is a major factor in the area's economy as a whole (as well as its community life). These bills are part of the effort to encourage the company to continue to operate and grow in Michigan.

***Against:***

The standard argument raised by opponents of the kind of SBT credits available under the MEGA program (and similar programs) is that they put the state in the improper position of picking winners and losers. Some companies get tax reductions, others don't. This bill is an example of that. Critics of this approach say that legislation should not single out one firm or one kind of firm for special tax treatment. It would be better for the state to have across-the-board tax policies, with economic development encouraged through a general positive business climate. At the very least, tax exemptions and credits ought to be automatically available to all similarly situated businesses that meet publicly known legislated criteria rather than awarded or denied by a state agency.

***POSITIONS:***

A representative of the Kalamazoo Chamber of Commerce testified in support of the bills. (5-6-03)

The mayor of the City of Kalamazoo testified in support of the bills. (5-6-03)

A representative from Southwest Michigan First has indicated support for the bills. (5-6-03)

Analyst: C. Couch

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■ 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.