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BILL ANALYSIS

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Senate Bills 808 through 814 (as introduced 10-30-03)
Senate Bill 825 (as introduced 11-4-03)
Sponsor: Senator Dennis Olshove (S.B. 808)
Senator Wayne Kuipers (S.B. 809)
Senator Alan Sanborn (S.B. 810)
Senator Nancy Cassis (S.B. 811)
Senator Tony Stamas (S.B. 812)
Senator Michelle A. McManus (S.B. 813)
Senator Laura M. Toy (S.B. 814)
Senator Jason E. Allen (S.B. 825)
Committee: Commerce and Labor

Date Completed: 11-6-03

CONTENT

The bills would amend various statutes to do the following:

- **Allow the designation of up to 20 tool and die renaissance recovery zones consisting of property owned by qualified tool and die businesses.**
- **Allow certain tool and die, machine tool, and molding companies to claim a single business tax (SBT) credit of up to $4,000 for the costs of training an apprentice.**
- **Allow a taxpayer who purchased personal property from a qualified tool and die business to claim an SBT credit equal to the amount paid for the property.**
- **Provide for grants to qualified tool and die businesses for broadband infrastructure.**
- **Expand the personal property tax exemption for special tools.**
- **Provide that the depreciation of personal property used to develop tool and die products could not be less than allowed under the Internal Revenue Code.**
- **Exempt from the use tax a construction contractor's labor cost to manufacture, fabricate, or assemble personal property before affixing it to real property.**
- **Give skilled trades associations access to school facilities to provide information about apprenticeship programs.**

Senate Bills 809 and 825 would define "qualified tool and die business" as a business entity that had fewer than 50 full-time employees; had a North American Industry Classification System (NAICS) designation as specified in the bill; and had entered into a collaboration agreement, as determined by the Michigan Strategic Fund, with other business entities that had the same NAICS designation. (The NAICS provides a system of defining and classifying various industries across the United States, Canada, and Mexico. The five designations referred to by the bills include industrial mold manufacturing; machine tool metal cutting type manufacturing; machine tool metal forming type manufacturing; special die and tool, die set, jig, and fixture manufacturing; and cutting tool and machine tool accessory manufacturing.)

Senate Bill 808

The bill would amend the Revised School Code to provide that if a school district, intermediate school district (ISD), or public school academy allowed institutions of higher education access to school facilities or activities, in order to provide pupils with information about educational opportunities, the board of the school district or ISD, or the board of directors of the public school academy would have to allow the same access to representatives of skilled trades associations, to provide information about apprenticeship programs.

Senate Bill 809

The bill would amend the Michigan Broadband Development Authority Act to allow the Broadband Development Authority to make grants to a qualified tool and die business for broadband infrastructure and services. The business would have to be located in a recovery zone, and approval of the Department of Treasury and the Michigan Economic Development Corporation, would be required.

"Qualified tool and die business" and "recovery zone" would mean those terms as defined in the Michigan Renaissance Zone Act (under Senate Bill 825).

Senate Bill 810

The bill would amend the General Property Tax Act to provide that for taxes levied after December 31, 2003, the depreciation of personal property used to develop tool and die products could not be less than the depreciation provided for in Section 168 of the Internal Revenue Code.

Under Section 167 of the Internal Revenue Code, taxpayers may claim as a depreciation deduction a reasonable allowance for the exhaustion, wear and tear, and obsolescence of property used in a trade or business or held for the production of income; Section 167 prescribes methods for determining the depreciation deduction. Section 168 provides for an accelerated cost recovery system and prescribes various depreciation methods to determine the deduction.

Senate Bill 811

The bill would amend the General Property Tax Act to replace the definition of "special tools", and define "standard tool", for the purpose of a personal property tax exemption.

Currently, all special tools are exempt from the personal property tax unless the value of a special tool is included in the valuation of inventory produced for sale. "Special tools" means those manufacturing requisites, such as dies, jigs, fixtures, molds, patterns, gauges, or other tools, as defined by the State Tax Commission, that are held for use and not for sale in the ordinary course of business.

The bill would delete the current definition and define "special tool" as "a finished or unfinished device that is used or is being prepared for use to produce a product or model for which that device is designed, and that is of such a specialized nature that the device's utility will cease to the owner or user if the product or model is discontinued". The term would include, but not be limited to, a die, jig, fixture, mold, pattern, or special gauge. Whether or not a device was a special tool would have to be determined without regard to its actual economic life or useful life or the product's or model's life in the marketplace. "Utility will cease" would mean that if a product or model were discontinued, a special tool could not be used without modification to produce a different product or model, notwithstanding any benefit from incidental use, such as the production of replacement parts for the original product or model.

"Special tool" would not include a standard tool. "Standard tool" would mean a die, jig, fixture, mold, pattern, gauge, or other tool that was not a special tool. The bill provides that for purposes of the personal property tax statement (required under Section 19 of the Act), the true cash value of a standard tool would be the net book value of that tool as of December 31 in each tax year, as determined using generally accepted accounting principles in a manner consistent with the established depreciation method used by the person submitting the statement. The net book value of a standard tool for Federal income tax purposes would not be the presumptive true cash value of that tool. (Under Section 19, each assessing officer must require any person who has possession of personal property to file a statement listing that property, by February 20 each year.)

Senate Bill 812

The bill would amend the Single Business Tax Act to provide that for tax years beginning after December 31, 2003, a taxpayer that purchased tangible personal property from a qualified tool and die business could claim a credit against the SBT equal to the amount actually paid to the tool and die business for that property, within 365 days after the taxpayer ordered the property.

This credit would be in addition to all other credits allowed under the Act, and costs used to calculate a credit under the bill could be used to calculate any other credit allowed under the Act, as applicable. If the proposed credit for the tax year and any unused carryforward of the credit exceeded the taxpayer's SBT liability for the tax year, the excess could not be refunded but could be carried forward as an offset to SBT liability for 10 subsequent tax years or until the excess credit was used up, whichever occurred first.

Senate Bill 813

The bill would amend the Use Tax Act to revise the application of the tax to a construction contractor regarding tangible personal property affixed to real estate.

Under the Act, the use tax is levied at a rate of 6% of the price of tangible personal property used, stored, or consumed in the State, and "price" is defined in several ways. If a construction contractor manufactures, fabricates, or assembles tangible personal property before affixing it to real estate, the "price" of the property is equal to the sum of the materials cost of the property and the cost of labor to manufacture, fabricate, or assemble the property. Under the bill, the price would *not* include the cost of labor to manufacture, fabricate, or assemble the property (meaning that it would not be subject to the tax).

Senate Bill 814

The bill would amend the Single Business Tax Act to allow a company with a North American Industry Classification System designation, as specified in the bill, to claim an apprentice credit of up to $4,000 per apprentice trained by the company in a tax year. The bill would apply to tax years beginning after December 31, 2003.

The SBT Act allows a taxpayer to claim a refundable credit of up to $2,000 against the tax for the expenses related to the training of an "apprentice", that is, a State resident at least 16 years old but under 20 years old who has not obtained a high school diploma, is enrolled in high school or a general education development (G.E.D.) test preparation program (or is expecting to enroll within three months), and is trained by the taxpayer in a program that meets the following criteria:

-- Is registered with the Bureau of Apprenticeship and Training of the U.S. Department of Labor.
-- Includes a minimum term of at least 4,000 hours.
-- Is provided pursuant to an agreement signed by the taxpayer and the apprentice.
-- Is filed with the local workforce development board (a board established by a local unit's chief elected official pursuant to the Federal Job Training Partnership Act).

Under the bill, the $2,000 credit would continue to be available if the proposed $4,000 credit did not apply.

Senate Bill 825

The bill would amend the Michigan Renaissance Zone Act to allow the Michigan Strategic Fund Board to designate up to 20 tool and die renaissance recovery zones in the State in one or more cities, villages, or townships if the local units or a combination of local units consented to the creation of a recovery zone within their boundaries. A recovery zone would have a duration of renaissance zone status for a period of up to 20 years, as determined by the Strategic Fund Board. (A "recovery zone" would be a tool and die renaissance recovery zone created under the bill.)

The Board could designate a recovery zone if it consisted only of one or more parcels of property owned by one or more qualified tool and die businesses, and were used by those businesses primarily for tool and die business operations.

(Businesses in, and residents of, renaissance zones receive exemptions, credits, or deductions from the single business tax, State and local income taxes, the State education tax, property taxes, various specific taxes, and, in Detroit, the city utility-users tax, as provided in the respective tax laws. The maximum duration of the tax abatements is 15 years.)

Proposed MCL 380.1140 (S.B. 808)
MCL 484.3207 (S.B. 809)
211.10e (S.B. 810)
211.9b & 211.27 (S.B. 811)
Proposed MCL 208.37e (S.B. 812)
MCL 205.92 (S.B. 813)
208.38e (S.B. 814)
125.2688 (S.B. 825)

Legislative Analyst: George Towne

FISCAL IMPACT

Senate Bill 808

The bill would have no fiscal impact on State government. Other than the minimal cost of operating school facilities after normal operating hours, there would be no measurable fiscal impact on local or intermediate school districts or public school academies.

Senate Bill 809

The bill would establish a grant program for qualified tool and die businesses. The fund source for the Broadband Authority was revenue generated from the sale of a bond sold by the Michigan State Housing Development Authority. The existing loan program under the original statute uses fees charged to applicants for debt service on that bond. If a new grant program were established, it would affect the ability of the Authority to pay this debt service unless fees on the loans were adjusted to provide for that program to subsidize the grants. The amounts of grants that would be awarded under this program is unknown at this time.

Senate Bill 810

Depreciable assets for the tool and die industry in Michigan are estimated to total $5.2 billion. Assuming, on average, that approximately half of the life of the property has been depreciated, approximately $2.6 billion would be subject to taxation. How much of this property qualifies as a special tool under current law, and is thus exempt from property taxes, is unknown. At an assessment rate of 50% and an average property tax levy of 51 mills, assuming that 50% of the property qualifies as a special tool, then property taxes on the property would total approximately $65.8 million. The extent to which the bill would change the value of the property is unknown. For example, if the value of the property were changed 25%, the bill would reduce property tax revenues by $16.4 million. However, if the bill were to change depreciation by 25% (equivalent to about a 3.8% change in the value of the property), the bill would reduce property tax revenues by approximately $2.5 million. School Aid Fund (SAF) revenues would be reduced by approximately 12% of the change in property taxes. School Aid Fund expenditures would be increased, to compensate school districts for lost locally-raised revenue, by approximately 35% of the loss in revenues. The remainder of lost tax revenue would affect local units of government. If property tax revenues fell by $16.4 million, SAF revenues would decline by $1.9 million, SAF expenditures would increase by $5.8 million, and revenue to local units of government would decline by $8.7 million.

Senate Bill 811

The bill would reduce property tax revenues by a unknown and potentially significant amount by increasing the amount of property that may qualify for the property tax exemption for special tools. While most of the property that currently qualifies for the exemption is in tool and die industries, the new definitions could include many types of property in many sectors. (Current law states that if property has value for the manufacturing of replacements parts, then the property has utility, while the bill would eliminate that consideration.) Furthermore, under the bill, if any modification to the property were necessary for a new model or product, then a determination could be made that utility had ceased, allowing the property to be classified as a special tool. As indicated above, the tool and die industry alone may have as much as $2.6 billion in property subject to taxation, although a significant portion of that property may already be exempt under current law. If the bill's provisions expanded the amount of property exempt from taxation in that sector by 75%, the revenue loss from the tool and die industry alone could be $32.9 million. Any loss in property tax revenue would decrease revenue to the SAF and local units of government, as well as increase expenditures from the SAF.

Senate Bill 812

The bill would reduce General Fund revenues by an unknown and likely significant amount, perhaps by $360 million or more. Sales from firms with fewer than 50 employees or less are estimated to total approximately $3 billion per year. For the broader nonelectrical machinery sector, the sector that includes the tool and die industry, approximately 12% of sales are Michigan sales. Assuming than none of the non-Michigan sales are to customers with an SBT liability, if all of the purchasers of these products have an SBT liability greater than their purchases from these firms, then revenues would decline by approximately $360 million. Total SBT liability for the manufacturing sector, the largest sector that consumes products from these firms, totaled more than $743 million for tax years ending between December 1999 and November 2000.

The impact of the bill could be much higher, particularly if a larger portion of shipments from firms with fewer than 50 employees are made to Michigan firms or non-Michigan sales include businesses with an SBT liability. Furthermore, if collaboration agreements result in firms' rerouting sales, if firms increase their sales as a result of the subsidy on purchases, or if organizational changes allow larger firms to fit within the 50-employee limit, then the impact could be greater than $360 million. The impact could be less than $360 million, perhaps as low as $30 million, if smaller firms primarily sell their wares to smaller firms (as opposed to major manufacturing entities) or larger tool and die firms.

The impact of the bill also could be substantially more because many firms with the necessary NAICS codes also make goods that do not fall under the tool and die NAICS classification. For example, one firm in Wyandotte, MI, whose products would qualify for the credit under the bill, manufactures hand tools, fiber optic equipment, and electrical components, and does stamping. The bill would allow a credit for any purchase from qualified firms--not just purchases of tool and die equipment.

In addition, the bill does not indicate what entity must classify the firm within the appropriate NAICS codes. Individuals firms, as well as different government entities, may classify a given firm under different NAICS codes. Similarly, many firms can be classified under multiple NAICS codes. In the example given above, a given authority may classify the firm under a non-tool and die NAICS code, even though the firm produces significant shipments of tool and die products.

Senate Bill 813

The bill would reduce use tax revenues by an unknown amount. Given the history of the provisions being modified by the bill, the reduction could be on the order of $8 million per year.

Senate Bill 814

At the present time, businesses are claiming about $100,000 from the existing apprenticeship credit each year. This credit is available to businesses for qualified expenses up to a maximum of $2,000 for each apprentice trained by the taxpayer during the tax year. This credit is available to all businesses, including tool and die-related businesses. The bill would increase the maximum credit to $4,000 for tool and die-related businesses only. Therefore, given the very small amount that is currently being claimed by all businesses through this credit, it is estimated that doubling the credit for tool and die businesses only would reduce single business tax revenue by less than $100,000 annually.

Senate Bill 825

Under existing law, businesses located in renaissance zones are exempt from State and local property taxes, State and local income taxes, local utility taxes, and the State single business tax. Based on the provisions of this bill--which would place no restrictions on the size of the proposed tool and die renaissance recovery zones, would not require that a zone be located in one contiguous area, and would not limit the number of tool and die businesses that could be included in a zone--it is assumed that all 20 zones would be created and that about 900 of the estimated 1,300 tool and die businesses with fewer than 50 employees would meet the qualifications for being in a zone, including the requirement to be in a "collaboration" agreement with other tool and die businesses, and would be approved by local governments to be included in a renaissance recovery zone. Based on these assumptions, it is estimated that this bill would reduce the following taxes by the following amounts:

- -- Local property taxes by $15 million.
- -- Local school 18-mill tax by $10 million.
- -- State education property tax by $3 million
- -- Community college property taxes by $1 million.
- -- Local income tax revenue by $1 million.
- -- Single business tax revenue by $9 million.

In addition, School Aid Fund expenditures would increase by $11 million because under existing law local schools and community colleges would have to be reimbursed for the property tax revenue they would lose as a result of these new renaissance zones.

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