Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bills 1302 through 1305 (as introduced 6-16-04)
Sponsor: Senator Bruce Patterson (S.B. 1302)
Senator Jud Gilbert, II (S.B. 1303)
Senator Patricia L. Birkholz (S.B. 1304)
Senator Virg Bernero (S.B. 1305)
Committee: Economic Development, Small Business and Regulatory Reform

Date Completed: 6-23-04

CONTENT

The bills would amend various acts to exempt a qualified start-up business, with local approval, from specific taxes levied under those acts, for five years beginning on December 31 of the year in which the business first claimed the credit under Section 31a of the Single Business Tax Act (proposed by Senate Bill 862) or Section 51f of the Income Tax Act (proposed by Senate Bill 863, which was vetoed).

(Senate Bill 862 would create a single business tax credit for a qualified start-up business that did not have net income for two consecutive tax years. "Qualified start-up business" would mean a business that had fewer than 25 full-time equivalent employees; had sales under $1 million in the tax year for which the credit was claimed; and was not publicly traded; also, research and development would have to make up at least 15% of the business's expenses in the tax year for which the credit was claimed.

Senate Bill 863 would have allowed a qualified start-up business to claim a credit against the income tax equal to its tax liability under the Act.)

Senate Bills 1302, 1304, and 1305

Under the bills, upon an application for an exemption made by a qualified start-up business, the governing body of a local tax collecting unit could adopt a resolution to exempt a facility from the tax. The application for exemption would have to be in a form prescribed by the State Tax Commission.

The clerk of the local tax collecting unit would have to give written notice to the assessor of the local tax collecting unit and the legislative body of each taxing unit that levied ad valorem property taxes in the local tax collecting unit. Before acting on the resolution, the governing body of the local tax collecting unit would have to afford the assessor and a representative of the affected taxing units an opportunity for a hearing.

Within 60 days of becoming exempt, a qualified start-up business exempt under the bills would have to file an exemption affidavit with the assessor of the local tax collecting unit.

The tax exemptions would not apply to that portion of the tax attributable to a special assessment or a tax described in Section 7ff(2) of the General Property Tax Act. The taxes calculated under these provisions would have to be disbursed proportionately to the taxing unit or units that levied the tax described in Section 7ff(2). (Under that section, real and personal property in a renaissance zone is not exempt from the collection of the following:

-- A special assessment levied by the local tax collecting unit in which the property is located.
-- Ad valorem property taxes specifically levied for the payment of the principal and interest of obligations approved by the electors or obligations pledging the unlimited taxing power of the local governmental unit.
-- A tax levied under certain sections of the Revised School Code providing for enhanced property taxes and a sinking fund levy.)

Senate Bill 1302 would amend the Technology Park Development Act to provide for an exemption from the technology park facilities tax, which is levied upon every owner and every user or occupant, if known, of a facility to which a certificate is issued under the Act.

Senate Bill 1304 would amend the plant rehabilitation and industrial development Act (commonly referred to as P.A. 198) to create an exemption from the industrial facility tax for a speculative building, new facility, or replacement facility owned or operated by a qualified start-up business.

Senate Bill 1305 would amend Public Act 189 of 1983 to allow an exemption of the real and personal property of a qualified start-up business from the tax levied under the Act. Under the Act, if real property exempt for any reason from ad valorem property taxation is leased, loaned, or otherwise made available to and used in connection with a business conducted for profit, the lessee or user would be subject to taxation in the same amount and to the same extent as though the lessee or user owned the real property. The exemption under this bill would be available for tax years beginning after December 31, 2004.

Senate Bill 1303

The bill would amend the City Utility Users Tax Act to exempt a qualified start-up business from the tax imposed by the City of Detroit on intrastate telephone communication services, electrical energy, steam, and natural and artificial gas provided by a public utility or a resale customer.

A qualified start-up business could claim the exemption by filing an exemption affidavit with the city treasurer, within 60 days of the date on which it became exempt.

The exemption would be effective if the city, within 90 days after the bill's effective date, adopted a resolution to include these provisions in its city utility users tax ordinance. The exemption would be available for tax years beginning after December 31, 2004.

A qualified start-up business would be exempt for the five consecutive tax years beginning with the first tax year in which it claimed a proposed single business tax or income tax credit (rather than beginning on December 31 of the year in which it first claimed a credit).

MCL 141.1155 (S.B. 1303)
MCL 207.561 (S.B. 1304)
MCL 207.712 (S.B. 1302)
Proposed MCL 211.181a (S.B. 1305) Legislative Analyst: J.P. Finet

FISCAL IMPACT

Senate Bills 1302, 1304, and 1305

The bills would decrease State School Aid Fund and local revenue by an unknown amount, depending on the number of exemptions issued under the conditions established in the bills and the specific characteristics of the property for which exemptions would be granted.

The bills also would increase School Aid Fund expenditures by an unknown amount. Any reduction in school property taxes or other revenue to schools under the bills would require greater School Aid Fund expenditures to bring affected school districts up to the guaranteed level of per pupil revenue.

Senate Bill 1303

The bill would decrease State School Aid Fund and local revenue by an unknown amount, depending on whether the City of Detroit adopted the necessary changes to its ordinance, the number of businesses affected by the ordinance changes, and the specific characteristics of the businesses for which exemptions would be granted.

These analyses are preliminary and will be revised as new information becomes available.

Fiscal Analyst: David Zin

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