

Legislative Analysis



MEGA SBT CREDITS & CHAPTER 11 PLANS

Mitchell Bean, Director
Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

Senate Bill 207 (Substitute S-3)

Sponsor: Sen. Jason E. Allen

House Committee: New Economy and Quality of Life

Senate Committee: Commerce and Tourism

Complete to 8-20-07

A SUMMARY OF SENATE BILL 207 AS PASSED BY THE SENATE 8-1-07

The Michigan Economic Growth Authority Act allows MEGA, a state authority, to enter into agreements with eligible businesses in order to grant single business tax (SBT) credits based on the firm's ability to create or retain jobs. One of the many conditions for receiving a tax credit is that the business be financially sound or have submitted a Chapter 11 plan of reorganization with the bankruptcy court. A firm that qualifies by virtue of having filed a Chapter 11 plan of reorganization must have that plan approved by the bankruptcy court within three years after entering into the SBT tax credit agreement or else the credit agreement is to be rescinded. Senate Bill 207 would amend the MEGA Act (MCL 207.803 & 207.808) to extend this time period to six years.

(The time frame was previously extended from two years to three years by Public Act 484 of 2006, House Bill 6118.)

BACKGROUND INFORMATION:

According to an analysis by the Senate Fiscal Agency, the Federal-Mogul Corporation, a Southfield-based manufacturer founded in 1899, entered into an agreement with MEGA for an SBT credit at the end of 2004. The company is in Chapter 11 bankruptcy proceedings, so its deadline for court confirmation of its reorganization plan under the MEGA Act is the end of 2007. Federal-Mogul's plan has been submitted to the bankruptcy court, but the firm has no control over the court's schedule. It has been suggested that the time frame allowed in the MEGA Act for court confirmation of a Chapter 11 reorganization plan be extended to allow Federal-Mogul to continue to benefit from its MEGA SBT credit.

FISCAL IMPACT:

This bill would reduce State business tax revenue by an indeterminate and likely minimal amount. Although this bill is targeted to assist Federal-Mogul Corporation to retain its Single Business Tax credit, it may potentially benefit other companies in the future. However, only those firms waiting for court approval of a Chapter 11 reorganization plan would benefit.

Legislative Analyst: J. Hunault
Chris Couch
Fiscal Analyst: Richard Child

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