

Legislative Analysis



MBT CREDIT FOR E85 & QUALIFIED BIODIESEL BLENDER PUMPS

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House Bill 5878 (Substitute H-2)
Sponsor: Rep. Joel Sheltroun
Committee: Agriculture

Complete to 12-2-08

A REVISED SUMMARY OF HOUSE BILL 5878 AS REPORTED FROM COMMITTEE

As amended, the bill would provide a nonrefundable Michigan Business Tax (MBT) credit to a service station owner that installs a new fuel delivery system or converts an existing one to deliver either (1) E85 fuel (fuel containing 70 to 85 percent ethanol) or (2) qualified biodiesel blends in the next three years. "**Qualified biodiesel blends**" would mean biodiesel blended on site using on-demand bio-blending equipment installed after the bill's effective date. The credit would be available for tax years beginning after December 31, 2008, and ending before January 1, 2012 and would not apply to any equipment installed before the bill's effective date. The bill does not define "fuel delivery system," but we understand the term to mean such things as fuel pumps, storage tanks, and related equipment.

Credit for 30 percent of costs, up to a maximum of \$20,000; excluded costs. The credit would be equal to 30 percent of the costs of creating or converting the fuel delivery system, up to a maximum of \$20,000 per taxpayer per year, unless a grant was previously received for the same costs under Michigan's Service Station Matching Grant Program (discontinued in 2007). Costs for which the service station received such a grant would be excluded in calculating the MBT credit.

[Note: Under MCL 125.2078, a matching grant is available for up to 75 percent of a conversion project's costs (up to \$3,000 per facility) or up to 50 percent of a new construction project's costs (for E85, up to \$12,000 per facility; for biodiesel, up to \$4,000 per facility). However, according to the Senate Fiscal Agency's analysis of Senate Bill 1196, dated 5-27-08, this matching grant program was discontinued in 2007. A separate state grant program run by the Department of Labor and Economic Growth, using \$110,000 in federal funds, offered grants of up to \$5,000 to service stations that converted existing equipment to sell E85 fuel by September 30, 2008. In addition, the federal government currently provides an income tax credit for costs incurred by service stations to be able to sell E85 or biodiesel fuels that is generally equal to 30 percent of incurred costs up to a maximum credit of \$30,000 per location for 2006 through 2009 tax years. Only costs covered by the discontinued matching grant program under MCL 125.2078 are specifically excluded from the bill's MBT tax credit.]

\$1 million cap on total credits allowed; credit nonrefundable. A total of no more than \$1 million in credits would be allowed per calendar year. If a taxpayer's allowed credit exceeded its liability for the tax year, the excess amount would not be refunded.

Michigan Strategic Fund certificate. When claiming the credit, the taxpayer would have to attach a certificate from the Michigan Strategic Fund to the tax return that includes:

- A statement that the taxpayer owns a service station that installed or converted a fuel delivery system (or both) to provide E85 or qualified biodiesel blends during the tax year for which the credit is sought.
- A statement of the costs incurred by the taxpayer during the designated tax year that count toward the credit and the amount of any grant awarded that same year based on the same costs.
- The taxpayer's federal Employer Identification Number (EIN) or Michigan Department of Treasury number.

Tax consequences if system is used for less than three years. A service station that stops using the new or converted system within three years of receiving the MBT credit could have the credit reduced or terminated (or have a percentage of a previously-claimed credit added back to its tax liability), as determined by the Michigan Strategic Fund.

[Note: House Bill 5878 and Senate Bill 1196 (Sen. Jud Gilbert, II), were identical as introduced. Senate Bill 1196 was passed by the Senate on June 10, 2008 as an S-1 Substitute, and reported from the House Agriculture Committee as an H-2 Substitute on September 17, 2008. This bill now resembles Senate Bill 1196 (Substitute H-2) as reported from the House Committee. Unlike the Senate Bill, however, biodiesel blender equipment under this bill does not have to be invented, but only installed, after the bill's effective date to qualify for the MBT credit; and no E85 or biodiesel equipment already installed would qualify for the credit under the House Bill as reported.]

FISCAL IMPACT:

This bill would reduce MBT revenue by not more than \$1 million on an annual basis. The fiscal impact would be limited to General Fund/General Purpose revenue. This bill would have no direct effect on local units of government.

POSITIONS:

The Department of Treasury supports the bill as reported. (12-2-08)

The Michigan Farm Bureau supports the bill. (12-2-08)

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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.