

Legislative Analysis



MBT CREDIT FOR E85 & BIODIESEL PUMPS

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House Bill 5878

Sponsor: Rep. Joel Sheltrown

Committee: Agriculture

Complete to 12-2-08

A REVISED SUMMARY OF HOUSE BILL 5878 AS INTRODUCED 3-11-08

The bill would provide a refundable 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) a biodiesel blend. 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.

The credit would be equal to 30 percent of the costs of creating or converting the fuel delivery system, 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 Service Station 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 matching grants under MCL 125.2078 would be excluded from the MBT tax credit under the bill.]

Excess credits refundable or applicable to future liabilities. If the tax credit exceeds the taxpayer's tax liability for the year, the taxpayer could choose whether to have the excess refunded or carried forward to offset future tax liabilities for ten years, or until used up, whichever comes first.

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 created or converted a fuel delivery system (or both) to provide E85 or a biodiesel blend 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 5678 is identical to Senate Bill 1196 (Sen. Jud Gilbert, II), 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. As reported from the House committee, the tax credit in Senate Bill 1196 was nonrefundable, there was a calendar year cap of \$1 million dollars on total allowed credits, and the credit would only apply to biodiesel pumps that blended onsite using technologies developed in the future.]

Section number. The bill purports to add a new Section 430 to the Michigan Business Tax Act. We anticipate that this section number will be amended, as it was in Senate Bill 1196, because the MBT Act already contains a Section 430.

FISCAL IMPACT:

This bill would reduce MBT revenue by an unknown amount. The fiscal impact would be limited to General Fund/General Purpose revenue. This bill would have no direct effect on local units of government.

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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.