Legislative Analysis

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INCREASE MEGA TAX CREDITS

House Bill 6606 as passed by the House
Sponsor: Rep. Ed Clemente
Committee: New Economy and Quality of Life
First Analysis (11-19-08)

BRIEF SUMMARY: The bill would (1) expand the number of credits that the Michigan Economic Growth Authority Board may execute annually from the current limit of 400 to a new limit of 500 for eligible businesses that are not qualified high-technology, distressed, or rural businesses, or businesses that occupy historic resource property located in a downtown district; and (2) increase the number of written agreements for qualified high-technology or rural businesses from the current annual limit of 50 to a new limit of 60 each year (only 30 of which could be for qualified rural businesses, up from 25).

FISCAL IMPACT: The bill would reduce Michigan Business Tax revenue to the General Fund by an indeterminate and potentially significant amount. The bill would not have a direct fiscal impact on local units of government. See *FISCAL INFORMATION*.

THE APPARENT PROBLEM:

Michigan Economic Growth Authority (MEGA) tax credits are a refundable tax credit against the Michigan Business Tax (MBT) to companies expanding or relocating their operations in Michigan.

Each MEGA credit may be awarded for up to 20 years and may equal up to 100 percent of the amount equal to the personal income tax generated by new workers. A MEGA spokesperson reported that the average term of a MEGA tax credit has decreased significantly since the program's onset, from between 15-20 years to between 7-10 years. The MEGA board must approve the tax credits, and a local government or a local economic development organization must make a financial or economic commitment to the project making application for the tax credit.

According to the MEDC, in Fiscal Year 2007 there were MEGA projects with 56 companies that provided MEGA annual tax credits ranging from $166,000 to $16.5 million. In 2007, these projects reduced the MBT revenue to the General Fund by a total of $162.7 million. The MEDC estimates that there was a job impact of approximately 13,000 direct jobs associated with the tax credits of these projects

MEGA tax credits have been granted by the Authority since 1995--a total of 439 credits in 14 years (although *approved* credits are not always used by a business). On average, about 31 tax credits are approved annually. However, a MEGA spokesman notes that the approval rate for MEGA tax credits during 2008 was more than double those of earlier years--83, in all. This trend is expected to rise during the economic downturn for all types of targeted MEGA tax credits, whether standard, retained, high-tech, or rural.

Currently the law limits the overall number of MEGA tax credits that can be granted by the Michigan Economic Growth Authority. The cap is 400 tax credits for eligible businesses that are not qualified high-technology, distressed, or rural businesses, or businesses that occupy historic resource property located in a downtown district. Further, the cap is 50 for the number of written agreements for qualified high-technology or rural businesses (no more than half designated as rural).

The administrative team of the Michigan Economic Growth Authority expects to reach the maximum number of high tech and rural approvals during calendar 2008, and also anticipates coming close to the newly authorized MEGA credit year allotment of 400 credit years per calendar year for the standard and retained business categories.

Legislation has been introduced to lift the "caps" on the number of credit years, increasing the number for credit years that can approved by 25 percent, from 400 to 500, and also increasing the number of written agreements for high tech or rural businesses by 20 percent from 50 to 60 written agreements.

THE CONTENT OF THE BILL:

House Bill 6606 (H-1) would amend the Michigan Economic Growth Authority Act

- To expand the number of credits that the MEGA Board may execute annually from the current limit of 400 to a new limit of 500 for eligible businesses that are not qualified high-technology, distressed, or rural businesses, or businesses that occupy historic resource property located in a downtown district.

- To increase the number of written agreements for qualified high-technology or rural businesses from the current annual limit of 50 to a new limit of 60 each year. Under the bill, only 30 of these credits could be for qualified rural businesses (up from 25 currently).

Further, currently under the law, eligible qualified high technology businesses must agree that at least 25 percent of their total operating expenses be maintained for research and development for the first three years of their written agreement. House Bill 6606 would eliminate this provision.

MCL 207.808

FISCAL INFORMATION:

House Bill 6606 would reduce the Michigan Business Tax revenue (MBT) by an indeterminate amount. MBT tax revenue is deposited into the state's General Fund. The bill would not have a direct fiscal impact on local units of government.

The reduction in revenue would be dependent upon several factors, including the number of additional businesses that are awarded the MEGA tax credit, the level of business activity of these companies, and the total amount of net new credits awarded by the MEGA Board.

According to the MEDC, in Fiscal Year 2007 there were MEGA projects with 56 companies that provided MEGA annual tax credits ranging from $166,000 to $16.5 million. In 2007, these projects reduced the MBT revenue to the General Fund by a total of $162.7 million. The MEDC estimates that there was a job impact of approximately 13,000 direct jobs associated with the tax credits of these projects

ARGUMENTS:

For:

Supporters of the bill note that targeted business tax credits yield desired economic results: more jobs for the unemployed--upwards of 28,000 direct and indirect jobs since the MEGA program's inception in 1995. Using a well-respected computer-based economic model known as REMI--an acronym for Regional Economic Modeling, Inc.,--developed by economists at the University of Michigan, the MEDC argues that an estimated $2 to $4 is generated for every $ 1 of business tax revenue forgone. They argue that increasing the "cap" on MEGA tax credits will stimulate much-needed business investment in Michigan.

For:

Some who support this bill ask why *any* "cap" is put in place; they argue that given the severity of the economic downturn and the rise in unemployment, *all* businesses that provide jobs should be guaranteed a reduction in their business taxes.

Response:

MEGA administrators say the "cap" allows them to carefully target business tax relief to those projects they know will enhance economic opportunity, and create jobs. The "cap" also limits the loss in revenue to the state's General Fund--a reduction due to MEGA tax credits of more than $162 million in Fiscal Year 2007, alone--and amounting to $1.8 billion (rising to $3 billion with the inclusion of other state and local incentives such as property tax abatements, job training subsidies, and infrastructure improvements) during the program's first 10 years. Program administrators argue that state and local governments can ill-afford the loss of even more tax revenue.

Against:

Opponents of the bill argue MEGA credits should be eliminated entirely. The Mackinac Center for Public Policy reviewed the then 10-year old MEGA program in its 2005 report (available at http://www.mackinac.org/7054). Their extensive 127-page study of the Michigan Economic Growth Authority found a weak track record and no significant economic effects. The report's authors noted that several aspects of the REMI model and the assumptions used with it could be leading to optimistic estimates. According to the report, "these issues involve the treatment of the direct cost of state tax relief, the cost of local incentives in the MEGA packages, the difference between high- and lowunemployment areas, the failed employment and wage assumptions apparent in past simulations, and the potentially increased cost of new state and local government services following new business investment and employment."

POSITIONS:

The Traverse City Area Chamber of Commerce supports the bill. (11-12-08)

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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.