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BILL ANALYSIS

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Senate Bill 1115 (Substitute S-1 as reported)
Sponsor: Senator Jason E. Allen
Committee: Commerce and Tourism

CONTENT

The bill would amend the Michigan Business Tax (MBT) Act to do all of the following:

-- Allow a qualified taxpayer (an anchor company that had influenced a new qualified supplier or customer to open, locate, or expand in Michigan) to claim an MBT credit for payroll attributable to employees of a qualified supplier or customer who performed qualified new jobs, for up to five years, if the taxpayer received a certificate from the Michigan Economic Growth Authority (MEGA).
-- Provide that MEGA could not designate more than five taxpayers as an anchor company in each calendar year and could not approve more than five new credits under the bill in each calendar year.
-- Allow a taxpayer to choose a refund or carryforward if the taxpayer's credit exceeded its liability.
-- Authorize MEGA to provide that qualified sales to a qualified supplier or customer would not be sales in Michigan for purposes of calculating the sales factor under the Act for the tax year for which a credit was provided under the bill.
-- Prescribe the computation of qualified sales to a qualified supplier or customer.
-- Allow a credit to be reduced or terminated, or a previously credited amount added back to the taxpayer's liability, if a taxpayer failed to meet requirements for receiving the credit.

"Qualified taxpayer" would mean a taxpayer that was designated by MEGA as an anchor company within the last five years and that had influenced a new qualified supplier or customer to open, locate, or expand in Michigan. "Anchor company" would mean a qualified high-technology business that is an integral part of a high-technology activity and that has the ability or potential ability to influence business decisions and site location of qualified suppliers and customers. "Qualified supplier or customer" would mean a business that opens a new location in Michigan, a business that locates in Michigan, or an existing business located in Michigan that expands its business within the last year as a result of an anchor company and that has financial transactions with the anchor company; sells a critical or unique component or technology necessary for the anchor company to market a finished product or buys a critical or unique component from the anchor company; has created more than 10 qualified new jobs; and has hade an investment of at least $1 million as certified by MEGA.

The bill is tie-barred to Senate Bills 1187 through 1190, which would amend the MEGA Act and the MBT Act to revise provisions allowing MEGA to award certain MBT credits.

MCL 208.1431a

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

It is not possible to make a reasonable estimate of the fiscal impact of this bill because there are too many unknown variables. In particular, there is no way to know how many new jobs would be created in Michigan or moved to Michigan by qualified suppliers and customers of high-tech "anchor" businesses or the total compensation that would be paid to these employees. The following example helps illustrate the potential low end of the range for the cost of this credit: If qualified suppliers and customers for five high-tech businesses each created the minimum qualifying level of 10 new jobs for which an average compensation of $80,000 was paid, and it is assumed that a weighted average of the business income tax rate of 4.95% and modified gross receipts tax rate of 0.8% was used (as the bill is not clear on what tax rate would be used to calculate the credit), then in the first year of this proposed credit, it would reduce Michigan business tax revenue paid by qualifying high-tech anchor companies by about $80,000. The more jobs created by qualified suppliers and customers and the higher the compensation paid to them, the more the credit would cost. In addition, given that the Michigan Economic Growth Authority would be able to issue up to five credits each year to high-tech businesses that had not yet received one of these credits in the past plus an unlimited number of credits to businesses that already had received one of these credits, and that each of these credits could be granted for up to five years, the total cost of these credits would grow over time. For example, if the above example of a potential minimum cost were repeated each year, by the fifth year these credits would reduce revenue by $400,000. Again, however, the cost could be much higher than this if more jobs were created and if the compensation paid per worker were greater. In addition, this credit would be unusual in that a company would receive a credit based on the activity of another company. Most tax credits are based on a company's own activity, not on the activity of its suppliers and customers. The loss in Michigan business tax revenue under this bill would affect the General Fund and would have no direct impact on local government.

Date Completed: 3-11-08 Fiscal Analyst: Jay Wortley

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