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BILL ANALYSIS

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Senate Bill 1115 (as enacted) **PUBLIC ACT 92 of 2008**
Sponsor: Senator Jason E. Allen
Senate Committee: Commerce and Tourism
House Committee: New Economy and Quality of Life

Date Completed: 9-16-08

CONTENT

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

-- Allow a qualified taxpayer (an anchor company that has 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 perform qualified new jobs, for up to five years, if the taxpayer receives a certificate from the Michigan Economic Growth Authority (MEGA).
-- Provide that MEGA may not designate more than five taxpayers as an anchor company in each calendar year and may 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 exceeds its liability.
-- Authorize MEGA to provide that qualified sales to a qualified supplier or customer are not sales in Michigan for purposes of calculating the sales factor under the Act for the tax year for which a credit is 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 fails to meet requirements for receiving the credit.

"Qualified taxpayer" means a taxpayer that is designated by MEGA as an anchor company within the last five years and that has influenced a new qualified supplier or customer to open, locate, or expand in Michigan. "Anchor company" means 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" means 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 took effect on April 8, 2008.

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 will be created in Michigan or moved to Michigan by qualified suppliers and customers of high-tech "anchor" businesses or the total compensation that will 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 create the minimum qualifying level of 10 new jobs for which an average compensation of $80,000 is 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% is used (as the bill is not clear on what tax rate will be used to calculate the credit), then in the first year of this credit, it will 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 will cost. In addition, given that the Michigan Economic Growth Authority may issue up to five credits each year to high-tech businesses that have not yet received one of these credits in the past plus an unlimited number of credits to businesses that already have received one of these credits, and that each of these credits may be granted for up to five years, the total cost of these credits will grow over time. For example, if the above example of a potential minimum cost is repeated each year, by the fifth year these credits will reduce revenue by $400,000. Again, however, the cost may be much higher than this if more jobs are created and if the compensation paid per worker is greater. In addition, this credit is unusual in that a company will 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 will affect the General Fund and will have no direct impact on local government.

Fiscal Analyst: Jay Wortley

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