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## BILL ANALYSIS

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Senate Bill 1115 (as introduced 2-14-08)  
Sponsor: Senator Jason E. Allen  
Committee: Commerce and Tourism

Date Completed: 2-26-08

### **CONTENT**

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

- Allow a qualified taxpayer to claim an MBT credit for payroll attributable to certain new jobs, for up to 10 years, if the taxpayer received a certificate from the Michigan Economic Growth Authority (MEGA).**
- Provide that MEGA could not approve more than five new credits each year.**
- Specify the requirements for a certificate.**
- Allow a taxpayer to choose a refund or carryforward if the taxpayer's credit exceeded its liability.**
- Specify that a credit could be reduced or terminated, or a previously credited amount could be 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 is an anchor company that has brought into Michigan a new qualified supplier or customer that created more than 10 full-time jobs and made an investment of at least \$1 million, as certified by MEGA. "Anchor company" would mean a qualified high-technology business that is an integral part of a high-technology activity and that has the authority or potential authority to dictate 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 relocates into Michigan, or an existing business located in Michigan that expands its business within the last year as a result of an anchor company and has financial transactions with the anchor company and buys or sells a critical and unique component or technology necessary for the anchor company to market a finished product.

"Business", "full-time job", "qualified high-technology activity", "qualified high-technology business", and "qualified new job" would mean those terms as defined in the Michigan Economic Growth Authority Act (MCL 207.803).

Specifically, the bill would allow a qualified taxpayer to claim a credit against the MBT of up to 100% of the qualified supplier's or customer's payroll attributable to employees who performed qualified new jobs, multiplied by the tax rate for the tax year for up to 10 years, as determined by MEGA. If the credit exceeded the taxpayer's liability for the tax year, the taxpayer could elect to have the excess either refunded or carried forward to offset subsequent years' tax liability for 10 years or until it was used up, whichever occurred first.

The Authority could not approve more than five new credits in each calendar year. If a qualified taxpayer were awarded a credit under the bill, any subsequent credits awarded to that taxpayer could not be included in a determination of the yearly limit of five new credits.

A taxpayer could not claim a credit under the bill unless MEGA had issued a certificate to the taxpayer, who would have to attach the certificate to the annual return on which the credit was claimed. The certificate would have to state all of the following:

- The taxpayer was a qualified taxpayer or qualified supplier or customer, whichever was applicable.
- The amount of the MBT credit for the qualified taxpayer or the qualified supplier or customer for the designated tax year.
- The taxpayer's Federal employer identification number or the Michigan Department of Treasury number assigned to the taxpayer.

A taxpayer that claimed a credit under the bill and subsequently failed to meet the bill's requirements, or failed to meet any other conditions included in an agreement entered into with MEGA in order to obtain a certificate, could have its credit reduced or terminated or have a percentage of the credit amount previously claimed added back to the taxpayer's tax liability in the year that the taxpayer failed to comply with the bill or the agreement, as MEGA determined.

Proposed 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 10 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, and by the 10th year the total cost would be up to \$800,000. 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.

Fiscal Analyst: Jay Wortley

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.