

ADVANCED BATTERY TECHNOLOGY CREDITS

Mitchell Bean, Director
Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

Senate Bill 319 (Anticipated Substitute H-3)

Sponsor: Sen. John Pappageorge

House Committee: Tax Policy

Senate Committee: Commerce and Tourism

Complete to 3-25-09

A SUMMARY OF SENATE BILL 319 AS REPORTED FROM HOUSE COMMITTEE

The bill would amend a section of the Michigan Business Tax Act (MCL 208.1434) that provides tax credits related to the development and application of advanced battery technology. It would affect two separate kinds of tax credit in order to:

- Allow for two additional credits to be awarded for the construction of integrated battery cell manufacturing facilities. (This brings the number of credits available to three credits and increases the maximum amount of credits available over four years from \$100 million to \$300 million.)
- Increase from \$70 million to \$90 million the maximum dollar amount of credits for firms engaged in vehicle engineering to support battery integration, prototyping, and launch expenses.
- Extend the deadline for agreements until October 1, 2009. The bill specifies that date as the deadline to "adopt a resolution authorizing an agreement to provide credits." This is new language. Currently, the act just refers to entering an agreement.

Senate Bill 319 is substantially the same as House Bill 4515, which passed the House on 3-15-09. The two bills are expected to be tie-barred, meaning neither can take effect unless both are enacted.

Advanced Battery Manufacturing

The Michigan Business Tax Act was amended in 2008 to allow for the granting of one refundable credit for a firm entering into an agreement by August 1, 2009 with the Michigan Economic Growth Authority (MEGA) for the construction of an integrative cell manufacturing facility that includes anode and cathode manufacturing and cell assembly if the firm would create at least 300 new jobs in the state.

The credit is equal to 50 percent of the capital investment expenses for the construction of the manufacturing facility. The maximum allowable credit is \$25 million per year for no more than four years (\$100 million total). No credit is to be claimed until the 2012 tax year (although the credit could be based on expenses incurred in years prior to that).

Senate Bill 319 would allow up to three such credits, each with the same maximum amount of \$25 million per year for four years, thus increasing the maximum amount of credits over four years from \$100 million to \$300 million.

Vehicle Engineering

The MBT Act also allows firms to claim a refundable credit of up to 75 percent of the costs of vehicle engineering in the state to support battery integration, prototyping, and launch expenses incurred for tax years 2009-2013. The credit cannot exceed \$15 million per year as agreed to and certified by the MEDC. The maximum amount of credits currently available for all firms for all years under the provision is \$70 million. Senate Bill 319 would increase that to \$90 million.

To claim the credit, a firm needs to manufacture a cumulative total of at least 1,000 qualified motor vehicles. The credit is based on the number of vehicles manufactured, so that a firm can receive a credit for 100 percent of total authorized annual expenses if it manufactures at least 5,000 qualifying vehicles; 80 percent for at least 4,000 vehicles; 60 percent for at least 3,000 vehicles; 40 percent for at least 2,000 vehicles; and 20 percent for at least 1,000 vehicles.

FISCAL IMPACT:

The bill would increase the maximum amount of credits available under Section 434 of the Michigan Business Tax Act by a total of \$220 million. The bill would increase the maximum number of agreements from 1 to 3 that would be eligible to receive MBT battery manufacturing credits up to \$25 million per year for no more than 4 years. This bill would reduce MBT revenue by a maximum of \$50 million per year beginning with the 2012 tax year and the maximum cost over the time period covered by these credits would be \$200 million. This bill would increase the maximum dollar value of the credits from \$100 million to \$300 million. To the extent that the Michigan Economic Growth Authority awards additional credits, MBT and General Fund/General Purpose revenue would be reduced. This bill would have no direct effect on local units of government.

BACKGROUND INFORMATION:

Current Proposal

The new federal stimulus package, the American Recovery and Reinvestment Act, appropriates \$2 billion to establish a grant program for the manufacture of advanced batteries and components and provides facility funding awards to manufacturers of advanced battery systems and vehicle batteries that are produced in the United States, including lithium ion batteries, hybrid electrical systems, component manufacturers, and software designers.

Officials with the Michigan Economic Development Corporation (MEDC) told the House Tax Policy Committee that having a state program and state-sponsored incentives in place will provide an advantage to Michigan in pursuing federal funds related to advanced battery manufacturing.

According to the MEDC, the MBT credits are part of the state's "advanced battery manufacturing strategy" in order to "establish Michigan as the advanced battery

manufacturing capital of North America for both the commercial and defense marketplace."

Public Act 580 of 2008 (House Bill 6611)

The Michigan Business Tax Act was amended in 2008 to put in place tax credits related to the development, manufacture, and commercialization of advanced battery technology. The credits are only available to firms that enter into agreements with the Michigan Economic Growth Authority and meet various investment or production criteria.

The stated aim of the credits is "to stimulate the domestic commercialization and affordability of high-power energy batteries, the lack of which today is limiting hybrid, plug-in hybrid battery-electric, and fuel cell vehicle applications, and to help insure that job growth from battery technology and commercial production develops alongside advanced vehicle technology development and renewable power generation initiatives both within and outside the transportation sector."

The act currently contains the following credits:

- Credits for the manufacture of plug-in traction battery packs in Michigan, beginning in the 2010 tax year and ending before 2015, subject to various total amounts based on kilowatt hours of battery capacity. The maximum amount of these credits available is \$135 million (\$40 million in 2011; \$43 million in 2012; \$43 million in 2013; and \$9 million in 2014).
- Credits for vehicle engineering that supports battery integration, prototyping, and launch expenses incurred in 2009-2013. The credits are available beginning in the 2012 tax year, with the maximum available credits set at \$70 million.
- Credits for advanced automotive battery technology engineering. These are available for the 2012-2014 tax years, with \$30 million in maximum available credits.
- One credit for the manufacture of integrated battery cell manufacturing facilities, with the credits beginning in the 2012 tax year and capped at \$25 million per year for four years (or \$100 million overall).

POSITIONS:

The following indicated support for the bill to the House Tax Policy Committee on 3-25-09: The Michigan Economic Development Corporation; General Motors and Ford Motors; and the Detroit Regional Chamber of Commerce.

Legislative Analyst: Chris Couch
Fiscal Analyst: Rebecca Ross

■ 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.