

ADVANCED BATTERY TECHNOLOGY CREDITS

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House Bill 5469 as enrolled

Public Act 240 of 2009

Sponsor: Rep. Ed Clemente

House Committee: New Economy and Quality of Life

Senate Committee: Commerce and Tourism

Complete to 9-8-10

A SUMMARY OF HOUSE BILL 5469 AS ENROLLED

The bill amended 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.

The bill, as enrolled, did the following:

Additional credit for constructing integrated battery cell manufacturing facilities

- The bill provided one additional credit to be awarded by the Michigan Economic Growth Authority for the construction of integrated battery cell manufacturing facilities. This brings the number of credits available from four to five credits.
- It also extended the deadline for the authorization of such credits by MEGA from October 1, 2009, to March 31, 2010. The maximum allowable credit is \$25 million per year for no more than four years, thus the bill increases the maximum dollar amount of these credits available over four years by \$100 million. The advanced battery manufacturing credit is equal to 50 percent of the capital investment expenses for the construction of an integrative cell manufacturing facility if the taxpayer will create at least 300 new jobs in Michigan. No credit is to be claimed until the 2012 tax year (although the credit could be based on expenses incurred in prior years).
- The bill also requires for this kind of credit that the credit agreement contain a repayment provision so that a firm will have some portion of the credit received added to its MBT tax liability and have its future credits terminated or reduced if it fails to meet certain requirements of the agreement, as determined by MEGA.

[Public Acts 5 and 6 of 2009 (HB 4515 and SB 319) increased the number of these credits available from one to three. Public Act 26 (SB 466) then increased the limit from three to four credits. Public Act 110 of 2009 (SB 777) subsequently allowed for an additional credit outside of the four-credit limit for the construction of a facility that will produce large scale batteries and manufacture integrated power management, smart control, and storage systems. PA 110 applies to a firm that will create at least 500 new

jobs in Michigan and that receives federal loan guarantees from the U.S. Department of Energy. (This credit applies to the renewable energy park expected to be developed at the site of the former Ford Wixom Plant.)]

Credit for the manufacture of advanced lithium ion battery packs

The bill authorized MEGA to provide (no later than March 1, 2010) one of the following kinds of tax credits (but not both) to a firm that manufactures advanced lithium ion battery packs in Michigan, as follows.

- A firm that agrees to make capital investments in Michigan of at least \$250 million, to create at least 1,000 new jobs (to include jobs transferred from foreign countries), and to manufacture at least 225,000 battery packs could claim a credit of up to \$26 million per tax year for up to three years.
- A firm that agrees to make capital investments in Michigan of at least \$200 million and to create at least 300 new jobs could claim a total credit of up to \$42 million over four consecutive tax years. An agreement for one of these credits could only be authorized if MEGA determines that credits for constructing manufacturing facilities remain available or that battery pack manufacturing credits described in the paragraph above are available.
- The term "advanced lithium ion battery packs" is defined to mean "an assembled unit of battery cells containing rechargeable lithium ion chemistry designed and mass produced for the purpose of transportation, including defense and commercial applications."

Special provisions for the battery pack manufacturing credit

A agreement for this kind of credit must contain (1) a provision that the firm agrees to make a good faith effort to use Michigan suppliers and vendors for credits claimed in 2012-2014 and a provision that the firm must use cells produced by the holder of a manufacturing facility construction credit for credits in 2015-2016; (2) a repayment provision so that if the firm relocates its battery pack assembly facility outside the state or fails to meet capital investment requirements it will have some portion of the credit received added to its MBT tax liability and have its future credits terminated or reduced; (3) a provision specifying the number of battery packs that must be manufactured; (4) a provision specifying the amount of capital investment necessary; and (5) a provision specifying the number of new jobs that must be created.

Credit for vehicle manufacturer using certain battery cells

The bill also provides for a credit for a vehicle manufacturer for up to 75 percent of certain specified costs each tax year of implementing a sourcing program to use battery cells from a firm that receives a credit for the construction of a manufacturing facility. The credit can be claimed for the 2016 tax year for costs incurred in the 2013-2015 tax

years. MEGA could enter into more than one credit agreement of this type. No single firm could claim a credit of more than \$12.5 million per year and for no more than two years. Further, a firm must manufacture at least 10,000 motor vehicles each year a credit is claimed at a facility in Michigan where costs eligible for the credit are incurred. This type of credit is only available if MEGA determines there are previously issued (but unused) manufacturing facility construction credits available. No more than 25 percent of the previously issued construction credits could be used, however.

The use of previously issued (but unused) manufacturing facility credits

When MEGA determines previously issued manufacturing facility construction credits are available, up to 25 percent of those credits can be used for vehicle manufacturer credits and up to 25 percent can be used for the smaller manufacturing credit. Further, if MEGA approves less than \$78 million in credits for the larger manufacturing credit, then credits equaling the difference between \$78 million and the amount approved could be used for the smaller manufacturing credit.

FISCAL IMPACT:

This bill would increase the maximum amount of MBT advanced battery technology credits for integrated battery cell manufacturing facilities by a total of \$100 million over four years. This bill also provides for a MBT credit for the manufacture of advanced lithium ion battery packs of up to \$78 million and a credit for vehicle manufacturers who use battery cells of up to \$25 million per manufacturer. In addition, the bill provides for partial repayment of credits if certain requirements are not met.

To the extent that the MEGA awards these credits and the credits are taken, MBT and General Fund/General Purpose revenue would be reduced beginning in FY 2011-12. In total, these credits could reduce MBT revenue by up to \$253 million. The bill would have no direct effect on local units of government.

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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.