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BILL



ANALYSIS

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House Bill 6235 (Substitute H-1 as reported without amendment)
Sponsor: Representative Richard LeBlanc
House Committee: Tourism, Outdoor Recreation and Natural Resources
Senate Committee: Finance

Date Completed: 6-22-10

RATIONALE

The Michigan Business Tax (MBT) Act allows an eligible taxpayer to claim a credit for capital expenditures made to upgrade a motorsports entertainment complex. The credit is available for tax years beginning on or after January 1, 2008, and ending before January 1, 2013. The taxpayer eligible for this credit is the Michigan International Speedway (MIS), whose parent company is the International Speedway Corporation. Located in Brooklyn, Michigan, the MIS hosts NASCAR (National Association for Stock Car Racing) auto and truck races as well as other events. The credit was included when the MBT Act was enacted in 2007, and legislation enacted in 2008 increased the maximum amount of the credit, as well as the amount of capital expenditures that the MIS must make to qualify for the credit. Although the Act requires the MIS to make at least \$30.0 million in capital expenditures before January 1, 2011, the MIS has spent approximately \$37.0 million on improvements since 2008, according to a spokesperson, and is continuing to upgrade its infrastructure and facilities. It has been suggested that the MBT credit should be extended for several years if the MIS makes an additional amount of capital expenditures.

CONTENT

The bill would amend the Michigan Business Tax Act to revise the credit that an eligible taxpayer may claim for capital expenditures on a motorsports entertainment complex, by doing the following:

- **Increasing the amount of the credit for the 2012 tax year.**
- **Extending the credit through the 2016 tax year.**
- **Requiring a taxpayer to spend an additional \$32.0 million in capital expenditures before 2017, including at least \$10.0 million after 2010 and before 2013, to receive the extended credit.**

Under the Act, for tax years beginning on or after January 1, 2008, and ending before January 1, 2013, an eligible taxpayer may claim a credit against the MBT equal to the amount of capital expenditures on infield renovation, grandstand and infrastructure upgrades, and any other construction and upgrades. The credit may not exceed the taxpayer's MBT liability or the following amount, whichever is less:

- For the 2008, 2009, or 2010 tax year: \$2.1 million.
- For the 2011 tax year: \$1,580,000.
- For the 2012 tax year: \$1,050,000.

Under the bill, the credit for the 2012 tax year could not exceed \$1,580,000 or the amount of the taxpayer's MBT liability, whichever was less.

For tax years beginning on or after December 1, 2012, and ending before January 1, 2017, the credit for capital expenditures could not exceed \$1,580,000 or the taxpayer's MBT liability before the calculation of the credit allowed for traffic and pedestrian safety expenditures, whichever was less.

(Under the Act, in addition to the credit for capital expenditures, an eligible taxpayer may claim a credit equal to the necessary expenditures incurred in this State, including professional fees, additional police officers, and traffic management devices, to ensure traffic and pedestrian safety while hosting the requisite motorsports events each year. The amount of the credit is 50% of those expenditures for the 2009 tax year and 100% of the expenditures for the 2010 and subsequent tax years.)

To be eligible to claim the capital expenditure credit under current law, a taxpayer must spend at least \$30.0 million on capital expenditures before January 1, 2011. Under the bill, to be eligible to claim the credit for tax years beginning after 2012 and before 2017, a taxpayer would have to spend, at a minimum, an additional \$32.0 million in capital expenditures after December 31, 2010, and before January 1, 2016. Of that amount, at least \$10.0 million would have to be spent before January 1, 2013.

(For purposes of this credit, an "eligible taxpayer" is any of the following:

- A person who owns and operates a motorsports entertainment complex and has at least two days of motorsports events each calendar year that are comparable to NASCAR Nextel Cup events held in 2007 or their successor events.
- A person who is the lessee and operator of a motorsports entertainment complex or the lessee of the land on which such a complex is located and operates that complex.
- A person who operates and maintains a motorsports entertainment complex under an operation and management agreement.)

MCL 208.1409

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The Michigan International Speedway is located on 1,400 acres and has total seating capacity of 130,000 to 140,000, including a

119,000-seat grandstand, infield seating, and suites. The MIS complex also contains nearly 9,000 campsites, which are open from Memorial Day to Labor Day. In June 2010, the MIS opened a new state-of-the-art suite and media center, which contains 30 corporate suites and accommodations for members of the media, and is covered by a rooftop with 8,000 square feet of solar panels. In addition to building this structure, the MIS widened the grandstand seats, invested in a scoreboard and traffic signage, and made other upgrades. Additional capital expenditures will be made on seating infrastructure, infield bathhouses, garages, and scoreboard improvements.

Although attendance had declined in recent years, the MIS now is able to offer the amenities that its competitors have, and it already has seen an increase in attendance over 2009. The MIS expects to host hundreds of thousands of fans during its two NASCAR race weekends in 2010. In addition to racing events, the MIS offers race driving schools, is hosting the Great Lakes Wine Festival on June 26 and 27, 2010, and in May was the site of the SAE Collegiate Design Series. The facilities are used regularly for high school cross-country State finals and law enforcement training, and the MIS currently is hosting the Progressive Insurance Automotive X Prize, in which teams compete to develop a vehicle that exceeds 100 miles per gallon. The MIS also offers fund-raising opportunities to civic groups and charitable organizations, is engaged in conservation efforts, hosts the Spirit of America blood drive each year on September 11, and has established a 501(c)(3) organization, "MIS Cares", to provide charitable giving opportunities.

Through all of these activities, the MIS contributes significantly to the economy and the community. The MIS is able to make these efforts, in part, due to the MBT credits that it receives. Extending the capital expenditure credit would help the MIS to continue improving its facilities and bringing business and tourism to southeastern Michigan.

Response: Although the credit for capital expenditures at the MIS is not refundable, the credit for traffic and pedestrian safety (crowd control) is. This means that if the amount of that credit exceeds the taxpayer's MBT liability, the taxpayer will receive a check from the State

for the difference. As a result, to the extent that the capital expenditure credit reduces MBT liability, it increases the amount that may be refunded for the crowd control credit.

Opposing Argument

In today's economy, the State can no longer afford to hand out targeted tax breaks. Although the proposed amendment is characterized as an extension of the existing credit, that credit will not be available after the 2012 tax year. Under current law, the State will not forego an additional \$530,000 of MBT revenue in the 2012 tax year and up to \$1,580,000 in each of the following four tax years.

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would reduce General Fund revenue by approximately \$530,000 in tax year 2012 and by \$1,580,000 in tax years 2013 through 2016. These reductions would be in addition to any reductions due to the investment tax credit the taxpayer would receive for making the investments necessary to qualify for the credits under the bill.

Fiscal Analyst: David Zin

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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.