



Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536



Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 855 (as introduced 11-29-11)
Sponsor: Senator Mike Kowall
Committee: Economic Development

Date Completed: 11-30-11

CONTENT

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

- **Authorize the Michigan Economic Growth Authority (MEGA) to enter into an agreement providing a tax credit for the manufacture of certain battery and electronic products, instead of the manufacture of large-scale batteries.**
- **Limit the total credit to \$50.0 million over four years.**
- **Require the taxpayer to be located in a renaissance zone.**
- **Designate the tax credit as a certificated credit.**
- **Require the agreement to provide for a reduction of the tax credit if the taxpayer failed to create at least 750 jobs.**

Battery Production Credit

The Act allows a taxpayer that has entered into an agreement with MEGA to claim a credit equal to 25% of the capital investment expenses for any tax year for the construction of a facility that will produce large-scale batteries and manufacture integrated power management, smart control, and storage systems from 500 kilowatts to 100 megawatts. The taxpayer may claim the credit if it will create 500 new jobs in Michigan and has received conventional financing, recovery zone facility bonds, or Federal loan guarantees from the U.S. Department of Energy for a project that employs innovative energy efficiency, renewable energy, and advanced transmission and distribution technologies under the Federal Energy Policy Act (42 USC 16513).

The bill instead would allow a taxpayer to claim the credit for the construction of a facility that would produce at least one or more of the following:

- Batteries.
- Battery components.
- Storage systems.
- Battery thermal and management components or systems.
- AC or DC power supplies.
- Power electronics.
- Battery formation and test equipment.
- Energy conversion devices including components related to such products of various sizes and capacities.

The taxpayer would have to agree to create at least 750 new jobs in Michigan and would have to be located within a renaissance zone established under Section 8a of the Michigan

Renaissance Zone Act by December 31, 2012. (That section authorizes the State Administrative Board to designate additional renaissance zones in Michigan, beyond those initially designated by the Board. Section 8a also authorizes the Michigan strategic Fund board to designate up to 27 additional renaissance zones, one of which may be designated as an alternative energy zone.)

Currently, only one agreement may be entered into for the large-scale battery tax credit, and the maximum allowable credit may not exceed \$25.0 million per year for up to four years. The bill provides, instead, that only one agreement could be entered into for a total credit of not more than \$50.0 million over four years, and the maximum allowable credit could not exceed \$25.0 million per year.

The Authority could not adopt a resolution authorizing an agreement to provide a credit under the bill after June 30, 2012.

Certificated Credit

A credit proposed by the bill for which a taxpayer entered into an agreement with MEGA before July 1, 2012, would be a "certificated credit". (Under the Act, a taxpayer may voluntarily elect for the taxpayer's first tax year ending after December 31, 2011, to file a return and pay the MBT in order to claim a certificated credit or any unused carryforward for the tax year; the taxpayer then must continue to file a return and pay the MBT for each tax year until the certificated credit and any carryforward from that credit is used up.)

Credit Reduction

An agreement entered into for a tax credit under the bill would have to include a provision that if the taxpayer failed to create 750 new jobs, the taxpayer would have its credit reduced by \$65,000 for each job less than 750 that was not created. If the taxpayer failed to create at least 500 new jobs, the agreement would have to include a provision regarding an additional "clawback" of any credit or benefit received pursuant to the agreement.

MCL 208.1107 & 208.1434

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The bill would reduce Michigan Business Tax revenue by \$50.0 million relative to current law. The section of statute affected by the bill was originally estimated to reduce MBT revenue by up to \$100.0 million over four years (with a maximum of \$25.0 million per year) beginning after 2012. No taxpayer ultimately qualified for the credit as originally adopted. The bill would allow a taxpayer to claim not more than \$50.0 million in credits over four years (with a maximum of \$25.0 million per year).

To the extent that the business activity associated with the credit would not otherwise occur, any revenue loss under the bill would be offset, either partially or completely, by increased revenue from other taxes, particularly individual income taxes. Both the amount of the credit and the magnitude of any offsetting revenue would depend on the actual level of activity from an affected taxpayer, including whether other eligibility criteria were satisfied. For example, an affected taxpayer would not receive a credit unless the required minimum number of jobs had already been created and the amount of the credit would depend on the actual number of jobs created.

Fiscal Analyst: David Zin

S1112\S855sa.

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.