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BILL ANALYSIS

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Senate Bill 1153 (Substitute S-1 as reported)
Senate Bill 1154 (Substitute S-1 as reported)
Senate Bill 1155 (as reported without amendment)
Sponsor: Senator Jim Stamas (S.B. 1153)
Senator Wayne Schmidt (S.B. 1154)
Senator Steven Bieda (S.B. 1155)
Committee: Economic Development and International Investment

CONTENT

Senate Bill 1153 (S-1) would add Chapter 8D to the Michigan Strategic Fund Act to do the following:

-- Require the Michigan Strategic Fund (MSF), beginning June 1, 2017, to create and operate the Michigan Business Withholding Abatement Program to provide economic assistance to authorized businesses that provided certified new jobs in Michigan.
-- Allow an eligible business to apply to the MSF to enter into a written agreement that allowed the business to retain a portion of income tax withholdings, i.e., a "withholding abatement".
-- Prescribe criteria for an agreement between an eligible business and the MSF, including a minimum number of certified new jobs the business would create and maintain at a facility in the State.
-- Require the MSF to determine the amount and duration of a withholding abatement, which could not exceed 10 years from the date the authorized business created the qualified new jobs.
-- Require the MSF to issue a certificate to an authorized business each year.
-- Require an authorized business to pay an amount equal to 5% of the withholding abatement for that year to the MSF.
-- Prohibit the MSF from executing more than 15 new written agreements each year for authorized businesses, and from having in effect written agreements that provided for more than $250.0 million in combined withholding abatements.

The bill would define "certified new job" as a full-time job created by an authorized business at a facility in the State that is in excess of the number of full-time jobs that authorized business maintained in the State prior to the expansion or location, as determined by the MSF.

Senate Bill 1154 (S-1) would amend the Income Tax Act to do the following concerning an employer that was an authorized business under a written agreement entered into with the MSF, as provided in Senate Bill 1153 (S-1):

-- Specify that a portion of the taxes withheld that were attributable to each certified new job created under the agreement would not accrue to the State but would be retained by the employer.
-- Provide that the withholdings retained by the employer would be considered income taxes paid to the State.

-- Require the employer to delineate in the return or report required under the Act between the amount deducted or withheld and paid to the State and the amount retained by the employer.

Senate Bill 1155 would amend the revenue Act to allow a person to disclose the information required for a report that the MSF must submit to the Legislature under the Michigan Strategic Fund Act for programs with new written agreements entered into after the bill's effective date for programs operated under the MSF Act.

Senate Bills 1154 (S-1) and 1155 are tie-barred to Senate Bill 1153.

Proposed MCL 125.2090g-125.2090i
MCL 206.703 & 206.711 (S.B. 1154)
205.28 (S.B. 1155)

Legislative Analyst: Drew Krogulecki

FISCAL IMPACT

General Fund/School Aid Fund Impact

The bills would reduce both General Fund and School Aid Fund revenue by a maximum of $250.0 million per year, which would consist of a $190.5 million reduction in General Fund revenue and a $59.5 million reduction in School Aid Fund revenue. The actual revenue reduction would depend on the number of jobs affected by the bills, as well as the salary and health benefits for each job, and the terms of any abatement agreements approved as a result of the bills.

Based on data from the Bureau of Labor Statistics, the average annual private-sector wage and salary income in 2015 was almost $50,000. Retail jobs would not qualify for a withholding abatement, and removing retail positions from the wage and salary data results in an estimated nonretail annual income of approximately $53,000. These figures vary by county; for example, in Wayne County the estimated nonretail wage income is approximately $61,700. In order to capture 100% of withholding, the bills would require affected jobs to pay at least 125% of the county average (an average that includes retail pay). In Wayne County, qualified jobs allowed to capture 100% of the withholding would need to pay approximately $72,600 per year (which could include the value of health care benefits). The actual amount of withholding for any given job depends on the characteristics of the employee, including the existence of other nonwage income, number of dependents, and eligibility for credits. As a result, it is impossible to predict how much withholding for each job would be subject to abatement. However, the bills would limit the total amount of withholding subject to capture to $250.0 million per year.

Department of Talent and Economic Development

The bills would result in additional expenses and revenue to the Department of Talent and Economic Development, which houses the Michigan Strategic Fund. The Department would incur initial administration expenses from developing and adopting the process for implementing the Michigan Business Withholding Abatement Program and for determining the amount and duration of an abatement. The Department also would have administrative expenses from processing applications, determining whether the Fund would enter into an agreement with a business, determining the amount and duration of an abatement, and ensuring that the business met its obligations under the agreement.

These additional expenses would be significant; however, capping the total number of agreements that the Fund could enter into for a single year would limit the potential for excessive processing of applications which otherwise could result in considerable expense and volatility.

The Department also would receive additional revenue under the bills. The Department would receive 5% of the total amount withheld to pay for the additional administrative expenses. With the total withholding the State could allow being $250.0 million, the Department could have up to $12.5 million available to administer the Program. In addition, the Department could receive revenue if an eligible business made a misrepresentation in its application and had its abatement revoked. The Department could issue a penalty of 10% of the withholding abatement, which also could be used for administering the Program. The revenue generated under the bills would be sufficient to administer the Program and the Department would not require additional appropriations from the Legislature.

Local Impact

The bills would have no fiscal impact on local government.

Date Completed: 11-29-16 Fiscal Analyst: Cory Savino
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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.