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BILL ANALYSIS

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Senate Bill 350 (Substitute S-2 as reported)
Sponsor: Senator Bill Schuette
Committee: Economic Development, International Trade, and Regulatory Affairs

CONTENT

The bill would amend the Single Business Tax (SBT) Act to provide for tax credits for businesses authorized by the Michigan Economic Growth Authority (MEGA) to receive the credits. Specifically, the bill provides that for tax years beginning after December 31, 1994, and for a period of up to 20 years as determined by MEGA, a taxpayer that was an authorized business could claim an SBT credit of the amount certified each year by MEGA up to the amount of the payroll of the authorized business attributable to employees who performed qualified new jobs multiplied by the tax rate. If the SBT credit exceeded the tax liability of the taxpayer for the tax year, the excess would have to be refunded to the taxpayer. In addition, an affiliated group, a controlled group of corporations as defined by the Internal Revenue Code, or an entity under common control as defined by the Internal Revenue Code would be entitled to only one SBT credit annually for each certificate for each facility or expansion regardless of whether a combined return or a consolidated return was filed. The bill further specifies that, for the same tax years plus any carryforward years allowed, an authorized business could claim an SBT credit equal to the tax liability attributable to authorized business activity. If the credit allowed for the tax year and any unused carryforward of the credit exceeded the taxpayer's tax liability for the tax year, the excess amount could not be refunded, but could be carried forward to offset tax liability in subsequent tax years for 10 years or until it was exhausted, whichever occurred first. The tax liability attributable to authorized business activity would be the tax liability imposed by the Act after the calculation of the small business, charitable contributions, public utility, and unincorporated and Subchapter S credits multiplied by a fraction whose numerator was the ratio of the value of the facility to all property located in this State plus the ratio of payroll attributable to qualified new jobs to all payroll in this State, and whose denominator was two.

The bill would prohibit a taxpayer from claiming either of the proposed SBT credits until MEGA had issued a certificate to him or her. The taxpayer would have to include the certificate with the tax return on which an SBT credit was claimed. Neither credit could be claimed if the taxpayer's initial certification were issued after December 31, 1998.

Proposed MCL 208.37c & 208.37d Legislative Analyst: L. Burghardt

FISCAL IMPACT

It is very difficult to estimate the fiscal impact Senate Bills 350 (S-2) and 351 (S-2) would have on State government. While Senate Bill 351 (S-2) limits the number of contracts that MEGA could issue annually to no more than 25, there is no way to know how many new jobs these contracts would create. To help put the potential fiscal impact of these bills in perspective, however, if it is assumed that 1) all 25 contracts are issued each year, and 2) that half of these are to in-state businesses that each create 75 new jobs and half are to out-of-state businesses that each create

150 new jobs, then these bills would reduce SBT revenue by an estimated $4.7 million during the first full year. By 1998, the last year that contracts could be granted, SBT revenue would be reduced by an estimated $21 million. If it is also assumed these business expansions, and new jobs, would not occur without these special tax credits, then the State also would gain new income tax revenue from these new workers, which would partially offset the loss in SBT revenue. The net impact of these bills, after considering the revenue impacts on both the SBT and income tax, is an estimated $3 million loss for the first year and a $14 million reduction by 1998. If the number of new jobs created were double the minimum requirement needed to qualify for the proposed credits, then the estimated cost to the State would be double the above estimates.

The bills also would have an impact on local governments because portions of SBT and income tax revenues are shared with local governments as part of the revenue sharing program. Based on the above estimates, revenue sharing payments would increase by an estimated $0.1 million in the first full year, due to the increase in income tax revenue. In subsequent years, however, the net loss in State revenue would result in a net reduction in revenue sharing payments. It is estimated that in the second year, revenue sharing payments would decline by a net $0.4 million and by 1998, revenue sharing would decline by a net $2.4 million, based on the above estimates.

Senate Bill 351 (S-2) includes authorization for an Authority consisting of eight members to provide policy guidance for MEGA programs. Per diem compensation of the rate of $50 per day could require an appropriation of $20,000 annually, depending on how often meetings were convened. Staffing requirements could be provided for through current resources.

Date Completed: 3-14-95

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