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BILL ANALYSIS

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House Bill 6611 (Substitute H-2 as reported without amendment)

Sponsor: Representative Lee Gonzales

House Committee: Tax Policy

Senate Committee: Commerce and Tourism

### **CONTENT**

The bill would amend the Michigan Business Tax Act to authorize the Michigan Economic Growth Authority (MEGA) to enter into agreements to provide tax credits "to stimulate the domestic commercialization and affordability of high-power energy batteries..., and to help insure that job growth from battery technology and commercial production develops alongside advanced vehicle technology development and renewable power generation initiatives both within and outside the transportation sector". The Authority could enter into agreements for the following:

- The manufacture of plug-in traction battery packs in Michigan, for tax years beginning after 2009 and ending before 2015, subject to various total amounts based on kilowatt hours of battery capacity.
- Qualified expenses for vehicle engineering in Michigan to support battery integration, prototyping, and launch expenses, incurred for tax years beginning after 2008 and ending before 2014; this credit could not exceed \$15.0 million per year, MEGA could not authorize more than \$90.0 million in total credits under this provision, and the credit could be taken for tax years beginning after 2011.
- Engaging in engineering in Michigan for advanced automotive battery technologies; MEGA could not enter into more than one agreement for this credit, which would be subject to a total limit of \$30.0 million and a yearly limit of \$10.0 million.
- Capital investment expenses for the construction of an integrative cell manufacturing facility that would include anode and cathode manufacturing and cell assembly, for tax years beginning after 2011; MEGA could enter into up to two agreements for this credit, which would be limited to \$100.0 million per agreement; and MEGA would have to appoint a review board to advise it about decisions concerning this credit.

Credits under the bill would have to be taken after nonrefundable credits available under the Act. If a credit, or sum of credits, allowed under the bill exceeded the taxpayer's tax liability for the tax year, the taxpayer could elect to have the excess refunded or carried forward to offset tax liability in subsequent years for 10 years or until used up, whichever occurred first.

Proposed MCL 208.1434

Legislative Analyst: Patrick Affholter

### **FISCAL IMPACT**

The bill would provide refundable tax credits against the Michigan business tax totaling a maximum of \$517.5 million during a seven-year period from tax years 2011 through 2017. The timing and annual maximum amounts for each of the four proposed tax credits are

summarized in the following table. It is likely that the actual credits claimed under the bill would be less than the maximum allowed, but by how much cannot be identified at this time. The amount of the maximum credits that actually would be claimed would depend on a number of factors, including: 1) the number of battery packs that would be assembled in Michigan and the kilowatt-hour capacity of those batteries, 2) the amount of battery-related vehicle engineering costs that would be incurred by manufacturers in Michigan, 3) the expenses that would be incurred in advance battery engineering activity in Michigan, and 4) whether two battery manufacturing facilities would be constructed in Michigan. The loss in Michigan business tax revenue due to this bill would begin at the earliest in FY 2010-11 and, while the proposed credits would be refundable, taxpayers would have the option to carry over any portions of the credits that exceed their tax liability to future tax years. All of the revenue lost under this bill would reduce the General Fund and there would be no direct impact on local governments.

<b>House Bill 6611 (H-2)</b> <b>Proposed Michigan Business Tax Credits for High-Power</b> <b>Motor Vehicle Battery Activity in Michigan</b> <b>Estimated Maximum Fiscal Impact per Tax Year</b> (dollars in millions)								
Proposed Credits:	2011	2012	2013	2014	2015	2016	2017	Total
Battery Pack Assembly (subsection 2)	\$40.0	\$60.0	\$60.0	\$37.5				\$197.5
Expenses for Vehicle Engineering to Support Battery Use (Subsection 3)		15.0	15.0	15.0	15.0	15.0	15.0	\$90.0
Expenses for Engineering for Advanced Automotive Battery Technologies (Subsection 4)		10.0	10.0	10.0				\$30.0
Capital Investment Expenses for Construction of Battery Mfg Facilities (Subsection 5)		50.0	50.0	50.0	50.0			\$200.0
<b>Total</b>	<b>\$40.0</b>	<b>\$135.0</b>	<b>\$135.0</b>	<b>\$112.5</b>	<b>\$65.0</b>	<b>\$15.0</b>	<b>\$15.0</b>	<b>\$517.5</b>

Date Completed: 12-17-08

Fiscal Analyst: Jay Wortley

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