



**House  
Legislative  
Analysis  
Section**

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**RENAISSANCE ZONES: TAX ACTS**

**House Bill 5190 as enrolled  
Public Act 441 of 1996  
Sponsor: Rep. Eric Bush**

**House Bill 5191 as enrolled  
Public Act 442 of 1996  
Sponsor: Rep. Beverly Bodem**

**House Bill 5194 as enrolled  
Public Act 444 of 1996  
Sponsor: Rep. Harold S. Voorhees**

**House Bill 5195 as enrolled  
Public Act 445 of 1996  
Sponsor: Rep. Sandra Hill**

**House Bill 5196 as enrolled  
Public Act 446 of 1996  
Sponsor: Rep. Greg Kaza**

**House Bill 5197 as enrolled  
Public Act 450 of 1996  
Sponsor: Rep. Alvin Kukuk**

**House Bill 5198 as enrolled  
Public Act 447 of 1996  
Sponsor: Rep. Ilona Varga**

**House Committee: Tax Policy  
Senate Committee: None**

**Senate Bill 669 as enrolled  
Public Act 448 of 1996  
Sponsor: Sen. Glenn D. Steil**

**Senate Bill 670 as enrolled  
Public Act 469 of 1996  
Sponsor: Sen. Loren Bennett**

**Senate Bill 671 as enrolled  
Public Act 449 of 1996  
Sponsor: Sen. Leon Stille**

**Senate Bill 672 as enrolled  
Public Act 451 of 1996  
Sponsor: Sen. Don Koivisto**

**Senate Bill 673 as enrolled  
Public Act 452 of 1996  
Sponsor: Sen. Dave Honigman**

**Senate Bill 674 as enrolled  
Public Act 453 of 1996  
Sponsor: Sen. John J.H. Schwarz, M.D.**

**Senate Bill 675 as enrolled  
Public Act 454 of 1996  
Sponsor: Sen. Bill Schuette**

**Senate Bill 676 as enrolled  
Public Act 455 of 1996  
Sponsor: Sen. Henry E. Stallings, II**

**Senate Committee: Local, Urban and  
State Affairs  
House Committee: Tax Policy**

**Second Analysis (1-3-97)**

House Bills 5190, 5191, 5194-5198 and Senate Bills 669-676 (1-3-97)

## ***THE APPARENT PROBLEM:***

The Michigan Renaissance Zone Act, Public Act 376 of 1996, which was signed into law last July, proposes tax breaks to encourage economic activity in certain designated economically depressed urban and rural areas of the state. Businesses and individuals in renaissance zones will be eligible for reductions for up to 15 years in business, income, and property taxes. A special review board, made up of the director of the Department of Management and Budget, the chief executive officer of the Michigan Jobs Commission, and the state treasurer, is charged with reviewing applications from local governmental units seeking to establish renaissance zones and making recommendations to the State Administrative Board, which is to designate the zones. The deadline for applications has passed and the designations must be made during November or December. Up to nine zones can be designated, not more than six in urban areas and not more than four in rural areas. The list of designated zones must be submitted to the legislature, which has the ability to reject the entire list no later than December 30 of this year.

Although the Michigan Renaissance Zone Act lists the taxes that the program intends to forgive or reduce in the designated zones, each relevant tax statute must also be amended for the tax breaks to be implemented.

## ***THE CONTENT OF THE BILLS:***

Each of the bills would amend a different tax statute, generally speaking, to provide special tax treatment (e.g., exemptions, deductions, and credits) to businesses or individuals operating or residing in renaissance zones under the newly created Michigan Renaissance Zone Act. Senate Bill 668, which created that act, is the main bill in the renaissance zones package. For a full explanation of the new act, see the HLAS analysis of Senate Bill 668 and House Bill 5193 dated 3-5-96. As part of the proposal, a variety of existing tax acts would be amended to provide for the temporary tax reductions described in Senate Bill 668 (both as to extent and duration) beginning in 1997.

Senate Bill 669 would amend the Income Tax Act (MCL 206.365) to provide a deduction for residents of a renaissance zone. A resident could deduct income earned or received while a resident of the zone; interest and dividends received during that period; capital gains received, prorated based on the percentage of time an asset was held while a zone resident; and lottery winnings. Income used to calculate a deduction under any other section of the act could not be used to calculate a renaissance zone deduction. To be considered a resident of a zone, a person would have to be domiciled

in the zone for 183 consecutive days and could claim the deduction beginning in the year the 183-day requirement was met. (Once the residency requirement had been met, the taxpayer would be considered to have been a resident of the zone from the first day.) A person eligible for the deduction would have to file a special withholding form within 10 days after becoming domiciled in a zone and file an annual state income tax return claiming the deduction. The deduction would only apply to a person with a gross income not exceeding \$1 million in a tax year.

Senate Bill 670 would amend the General Property Tax Act (MCL 211.70 et al.) to exempt real property in a zone from property taxes and to exempt personal property that was situated within a zone for at least half of the immediately preceding tax year. Real and personal property would not be exempt from special assessments; taxes levied to pay principal and interest due on debt obligations; "enhancement" mills levied by a local school district or an intermediate school district; or school building sinking fund mills. (The new school financing system permits a local district through 1996 and an intermediate school district thereafter to levy up to 3 mills beyond the basic 18-mills and any "hold harmless" mills with voter approval; these are known as enhancement mills.) The bill would require residential rental property to be in substantial compliance with all applicable state and local zoning, building, and housing laws, ordinances, and codes to receive an exemption and to file an affidavit with the local unit each year attesting to that compliance. Real property on which a casino was located and the personal property of a casino would not be exempt from the collection of taxes.

(The bill also contains an amendment to the act specifying that property owned by a non-profit charitable institution and made available to -- and occupied by -- another nonprofit charitable institution, non-profit hospital, or educational institution for appropriate purposes is exempt from taxes under the act.)

Senate Bill 671 would amend the Neighborhood Enterprise Zone Act (MCL 207.779) to exempt a new facility or rehabilitated facility (i.e., residential property) from a portion of the specific tax levied under that act. The exemption would not apply to that portion of the specific tax attributable to a special assessment or to debt millages, school enhancement millages, and school building sinking fund millages.

Senate Bill 672 would amend a section of the Natural Resources and Environmental Protection Act (MCL

324.51105) relating to the commercial forest tax to provide an exemption from that tax.

Senate Bill 673 would amend the Local Development Financing Act (MCL 125.2161a); Senate Bill 674 would amend the Tax Increment Finance Authority Act (MCL 125.1812a); and Senate Bill 675 would amend the downtown development authority act (MCL 125.1663b). These are all tax increment financing acts whereby a specified area is created to capture growth in tax revenue. The authorities under these acts were affected by the adoption of the new school finance system and the accompanying property tax reductions. Consequently, the acts were amended to require the legislature to appropriate funds to local authorities in cases where an authority's revenue was not sufficient to meet its obligations as a result of property tax revenue reductions attributable to the new school financing system. The three bills in this package specify that the legislature is to appropriate to the authorities the amount of tax increment revenues they would have received for a fiscal year if property taxes had been levied on property that was exempt from taxes because it was in a renaissance zone. The revenues would be calculated based on the taxable value of the property at the time the renaissance zone was designated. In the case of Senate Bill 675, which applies to downtown development authorities, however, the bill would specify that for a development area designated before 1997 in which a renaissance zone was subsequently designated, the "initial assessed value" of the development area would be reduced by the amount by which the current assessed value of the area was reduced in 1997 due to the exemption of property in a renaissance zone. (This, reportedly, holds a downtown development district harmless from revenue losses it would otherwise suffer from the renaissance zone legislation.)

Senate Bill 676 would amend the City Utility Users Tax Act (MCL 141.1155) to provide an exemption under that act for taxpayers in a renaissance zone.

House Bill 5190 would amend the Single Business Tax Act (MCL 208.39b) to allow a business that was located in and conducting business activity in a zone to claim a credit equal to the tax liability attributable to business activity conducted in the zone. (The calculation could not include income from illegal activities.) Any portion of tax liability attributable to the operation of a casino could not be used to calculate the credit. Further, the bill would specify that a taxpayer claiming such a credit could not employ, pay a speaker fee to, or provide any remuneration, compensation, or consideration to any person employed by the state, the state administrative board, or the renaissance zone review board whose employment relates in any way to the authorization or enforcement of the credit for any year in which the

taxpayer claimed the credit and for three years after the last year for which the credit was claimed.

House Bill 5191 would amend the City Income Tax Act (MCL 141.652 et al.) to provide a deduction to individuals residing in a renaissance zone and businesses conducting business activity in a zone similar to that for individuals under the state income tax as described in Senate Bill 669, with the same residency and filing requirements. (The bill would not apply to income from illegal activity.)

House Bills 5194-5197 would amend, respectively, the Enterprise Zone Act (MCL 125.2121 et al.), the Technology Park Development Act (MCL 207.712), the Plant Rehabilitation and Industrial Development District Act (MCL 207.561), and the Commercial Redevelopment Act (MCL 207.662) to exempt facilities located in both areas designated under those acts and in renaissance zones from a portion of the specific tax levied under those acts. The exemption would not apply to that portion of the specific tax attributable to a special assessment or to debt millages, school enhancement millages, and school building sinking fund millages.

House Bill 5198 would amend Public Act 189 of 1953, dealing with lessees and users of tax exempt property (MCL 211.181), to exempt tax-exempt real property being leased for a non-tax-exempt purpose in a renaissance zone from being taxed under the act. The exemption would not apply to a special assessment and to debt millages, school enhancement millages, and school building sinking fund millages.

### ***BACKGROUND INFORMATION:***

According to information from staff to the Michigan Jobs Commission, 20 applications were submitted for renaissance zone designation, including two from military installations at Warren and Wurtsmith. Applications were submitted by eight urban areas: Battle Creek, Benton Harbor/Benton Township/St. Joseph, Detroit, Flint, Grand Rapids, Lansing, Saginaw, and Ypsilanti; and 10 rural areas: Bangor, Fairfield Township, Gogebic/Houghton/Ontonagon Counties, Grand Traverse County, Gratiot/Montcalm Counties, Hartford, Huron/Tuscola Counties, Lake County, Manistee County, and Missaukee County. The designations were announced on December 16. The six urban areas are Detroit, Grand Rapids, Flint, Lansing, Saginaw, and Benton Harbor/St. Joseph/Benton Township. The three rural zones chosen are Gogebic/Ontonagon/Houghton counties, Manistee County, and Montcalm/Gratiot counties. Also, the two former military installations were selected, the Warren tank plant in Macomb County and the Wurtsmith Air Force Base in Oscoda County.

## **FISCAL IMPLICATIONS:**

According to the House Fiscal Agency (HFA), the fiscal impact of the renaissance zone legislation could not be estimated when the legislation was pending since the size and location of potential renaissance zones had not been determined. The HFA has, however, provided a discussion of the potential impact of the program on state and local finances, which is summarized below. Fiscal analysts note that the discussions do not include estimates of the potential impact of job creation or economic development within the renaissance zones because adequate data on this type of economic development tool are not available. (See the HFA fiscal note dated 7-1-96)

**\*\*** Local governments with renaissance zones would face a loss in revenues from city income taxes, local property taxes, and local utility users taxes. The magnitude of these losses is difficult to determine. In addition, since property in a renaissance zone would also be exempt from assessments by neighborhood enterprise zones, local development financing authorities, or downtown development authorities, in cases where such designated areas overlapped, the bill could render existing local development authorities unable to generate sufficient local revenues to cover their obligations.

**\*\*** The bill would result in a loss to the School Aid Fund from the six-mill state education property tax and specific taxes that are dedicated to the fund. Also the exemption from the state income tax will affect school funds because 23 percent of gross income tax revenue is dedicated to the SAF. Also, SAF costs would increase because the state is required to reimburse local and intermediate school districts each year for all tax revenue lost as a result of the exemption of property in renaissance zones.

**\*\*** With regard to the general fund, the fiscal impact of the legislation would be to reduce single business tax revenue and income tax revenue as a result of the credits and exemptions for renaissance zone businesses and residents.

## **ARGUMENTS:**

### **For:**

These bills are necessary for the implementation of the Michigan Renaissance Zone Act signed into law in July of this year. Each bill amends a separate tax statute in order to provide the tax breaks promised by the renaissance zone program. The essence of the program is to provide tax breaks in certain designated socio-economically depressed areas in order to stimulate economic activity. Zone site selections were recently announced. (The full list of designated zones is subject to legislative veto.) Without these bills, the renaissance

zone program -- already approved by the legislature in outline -- cannot go forward.

### **Against:**

Those who have opposed the creation of this program have argued that it is a case of the state government picking winners and losers, pitting community against community, business against business, and individual against individual. This, say critics, is not a proper role for state government. Taxpayers throughout the state will have to pick up some of the tab for tax cuts that will benefit only a few favored geographic areas, because the state will reimburse local units for lost public school, community college, and public library revenues. Critics also point out that there are no estimates of how much revenue will be lost from this program; it represents an open checkbook. At the very least there ought to be caps on lost revenue. There are also few limits on the income of individuals eligible for reduced taxes by living in a renaissance zone. Wealthy individuals are eligible for state and local income tax waivers and property tax breaks! Hugely profitable businesses will be eligible for single business tax (SBT) breaks!

### **Response:**

The aim of the renaissance zone program, say its defenders, is to stimulate economic activity where it currently doesn't exist. In the long run, this will benefit not only the renaissance zone areas and the communities in which they are located but the state as a whole. If economically successful individuals and businesses choose to locate in what are now depressed and deteriorated areas, that is likely to be a boon rather than a burden to the state.

Analyst: C. Couch

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.