

**House Bill 5681 as enrolled**  
**Public Act 341 of 2000**  
**Second Analysis (1-17-01)**

**Sponsor: Rep. Mike Kowall**  
**House Committee: Tax Policy**  
**Senate Committee: Finance**

***THE APPARENT PROBLEM:***

The state utility tax is levied in lieu of the local property tax on the property of telephone and telegraph companies, railroads, and some others (but not electric and gas utilities). The tax is administered at the state level rather than by local units and is levied at a rate equal to the average statewide ad valorem rate levied on other commercial, industrial, and utility property. The tax is also levied on railcars not owned by railroad companies. Some people have proposed that a credit be made available for owners of railcars in order to encourage them to have the railcars repaired in Michigan. Proponents of such a measure say that Indiana recently enacted a railcar maintenance tax credit and as a result has seen a significant increase in railcar repair and maintenance activity. They also say that Canada and the neighboring states of Ohio, Illinois, Iowa, and Minnesota, do not impose such a tax on non-railroad owners of railcars. The future of repair facilities in Port Huron, Waterford, Midland, and Birmingham depends, say industry representatives, on reducing the extra costs imposed on railcar owners by the state utility tax.

***THE CONTENT OF THE BILL:***

The bill would amend Public Act 282 of 1905, which provides for the assessment of the state utility tax, to provide a credit against the tax equal to the amount of expenses incurred in the state in the immediately preceding tax year to maintain or improve an eligible company's qualified rolling stock. The term "qualified rolling stock" would be defined to mean any freight, stock, refrigerator, or other railcars subject to the tax levied under the act.

The bill would also provide a credit for 75 percent of the expenses incurred in the state for the maintenance or improvement of rights-of-way. (The act already, in another section, allows a railroad company a credit equal to 25 percent of the amount expended for the maintenance and improvement of rights-of-way.)

An "eligible company" would mean railroad companies, union station and depot companies, sleeping car companies, express companies, car loaning companies, stock car companies, refrigerator car companies, fast freight line companies, and all other companies owning, leasing, running, or operating any freight, stock, refrigerator, or any other cars not the exclusive property of a railroad company paying taxes upon its rolling stock under the act, over or upon the line or lines of any railroad in the state.

A company would apply for the credit to the State Board of Assessors. The credit could not exceed the company's tax liability for the year in which it was claimed. If the board determined that the sum of all credits equaled the company's tax liability before the credits were taken into account, the board could waive the normal application requirement and certain reports and statements required elsewhere in the act.

MCL 207.13a

***FISCAL IMPLICATIONS:***

The Senate Fiscal Agency reports that the bill would reduce state revenues from the utility property tax by about \$5 million per year. (SFA analysis dated 6-13-00) The House Fiscal Agency's preliminary analysis indicated that the bill would reduce utility property tax revenues by about \$5 million to \$10 million. (Fiscal Note dated 4-26-00)

***ARGUMENTS:***

***For:***

The bill aims at protecting the jobs of Michigan workers who repair and maintain railcars. It would create a credit for railcars that would provide an incentive to have them sent to Michigan facilities for repair and maintenance. Supporters say that without such a credit, companies will have their railcars

maintained in locations with a more favorable tax climate. The proposed tax credit will put Michigan on an equal footing with Indiana (and others). The credit will have no impact on the tax revenue of the local units of government because the bill affects a special (and old) state tax levied in lieu of local property taxes. To the extent that more railcars are housed in Michigan, that will mean more railcars available to ship Michigan products, including agricultural products. Reportedly, farmers had difficulty in the recent past getting product to market because of a shortage of available railcars.

***Against:***

The usual criticism of bills of this kind is that they carve out a special exemption for one industry rather than addressing the tax burden across-the-board or comprehensively.

Analyst: C. Couch

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