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SFA BILL ANALYSIS

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House Bill 5681 (as reported without amendment)
Sponsor: Representative Mike Kowall
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 6-13-00

RATIONALE

Public Act 282 of 1905 provides for the assessment and taxation of the property of railroad, telephone, and telegraph companies. The tax is levied under the Act at the State level in lieu of local property taxes. The tax is administered by the State Board of Assessors and is levied at a rate, determined by a formula in the Act, that measures the average Statewide property tax rate levied on other commercial, industrial, and utility property. It has been pointed out that the tax also is levied on railcars not owned by railroad companies, which may cause a problem for facilities that repair and maintain railcars. Reportedly, Indiana recently enacted legislation to allow railcar owners to claim a credit for expenses incurred in maintaining or repairing railcars in that state. Because railcars are highly mobile, some people believe that companies that own, lease, or operate railcars and currently have them repaired and maintained at facilities in Michigan will now have a strong incentive to have those railcars repaired and/or maintained in Indiana, to take advantage of the credit. It has been suggested that this State adopt a credit similar to the credit allowed in Indiana.

CONTENT

The bill would amend Public Act 282 of 1905 to allow a company that owned, leased, ran, or operated "qualified rolling stock" to claim a credit against the tax levied under the Act equal to 25% of the expenses incurred in the State in the preceding calendar year to maintain or improve the company's qualified rolling stock.

The credit claimed could not exceed a company's liability for the tax levied for the year in which the credit was claimed. A company could apply for the credit by submitting to the State Board of Assessors an application form prescribed by the Board.

Under the bill, "qualified rolling stock" would be any freight, stock, refrigerator, or other railcars that were not the exclusive property of a railroad company, whose rolling stock was subject to the tax under the Act.

MCL 207.13a

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

Indiana recently adopted a tax policy that provides tax credits for expenses related to the repair and maintenance of railcars. This means that the cost of repairing and maintaining railcars will be less in Indiana than at facilities located in Michigan. In addition, Canada and the neighboring states of Ohio, Illinois, Iowa, and Minnesota reportedly do not impose a tax on railcars not owned by railroad companies. Thus, because railcars are highly mobile equipment, their owners will have little incentive to have railcars repaired at Michigan facilities. By providing a repair and maintenance credit similar to that offered in Indiana, the bill would remove the incentive to have railcars repaired out-of-state and provide protection for Michigan facilities and their employees.

Opposing Argument

The bill would provide a special exemption for one industry, rather than providing comprehensive tax relief for all, and have a substantial impact on State revenue.

Legislative Analyst: G. Towne

FISCAL IMPACT

The bill would reduce State General Fund/General Purpose revenue derived from taxes assessed on utility property by an estimated $5 million a year.

Fiscal Analyst: J. Wortley