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BILL ANALYSIS

Senate Fiscal Agency

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Senate Bill 440 (as passed by the Senate)
Sponsor: Senator Dan L. DeGrow
Committee: Commerce and Technology

Date Completed: 6-20-89

RATIONALE

With the elimination of solid waste becoming an increasingly difficult, if not desperate, problem, greater attention is being focused on how to reduce the amount of waste produced and, more specifically, how to promote the recycling of waste products already produced. The greatest hindrance, some feel, to the development of a viable recycling industry is the lack of sufficient market demand for recycled materials that would make resource recovery or waste-to-energy activities economically attractive. It has been suggested that one way to make recycled products and recycling processes competitive with pristine materials and existing manufacturing and industrial processes is to provide tax credits for the purchase and conversion of recyclable material and for the purchase of recycled products.

CONTENT

The bill would amend the Single Business Tax (SBT) Act to allow taxpayers to claim a credit against the tax for the purchase of recyclable materials; the purchase of compost; the production of electricity by a qualified resource recovery facility; and the purchase or sale of steam. If a credit allowed under the bill exceeded the SBT liability of the taxpayer, the Department of Treasury would have to refund the excess to the taxpayer.

The SBT credit provided by the bill could be claimed for only 10 consecutive tax years

beginning with the first tax year for which the taxpayer actually claimed the credit. For each of the 10 tax years immediately following the last tax year for which the taxpayer claimed the credit, he or she would be required to pay a surcharge equal to one-tenth of the aggregate amount of the credits he or she received.

Recyclable Material

A taxpayer who purchased recyclable material for the purpose of converting it into new products or into material used to produce new products could claim a credit against the SBT equal to 15% of the amount spent to purchase the recyclable material from a qualified material recovery center. The credit could be claimed only in the tax year in which the taxpayer converted the material into a new product or into material used to produce a new product.

"Recyclable material" would mean glass, metal, wood, paper, plastics, rubber, textiles, garbage, yard clippings, tires, batteries, or other material approved by the Director of the Department of Natural Resources that is separated from solid waste generated in this State for the purpose of conversion into new products or into material used to produce new products. The term would not include material regulated under the bottle deposit law. "Solid waste" would be defined as it is in the Solid Waste Management Act, i.e., garbage, rubbish, ashes, incinerator ash or residue, street cleanings, municipal and industrial sludges, solid commercial and

S.B. 440 (6-20-89)

industrial waste, and animal waste, excluding certain material.

"Qualified material recovery center" would mean a facility located in this State that sorts or processes recyclable material and that complies and is consistent with the solid waste management plan for the county in which the facility is located.

Compost

A taxpayer could claim a credit against the SBT equal to 15% of the amount the taxpayer spent to purchase compost from a qualified compost facility. "Qualified compost facility" would mean a facility that composts solid waste and complies and is consistent with the solid waste management plan for the county in which the facility is located.

Electricity

A qualified resource recovery facility that began construction after the bill's effective date could claim a credit against the SBT in an amount equal to three cents per kilowatt hour for the electricity the taxpayer produced and sold in this State.

"Qualified resource recovery facility" would mean a facility that meets all of the following requirements:

- The facility meets the requirements for a resource recovery facility under the Public Service Commission (PSC) enabling Act.
- The facility complies and is consistent with the solid waste management plan for the county in which the facility is located.
- The facility's total annual fuel input is composed of at least 80% "qualified solid waste" (as defined under the PSC Act, excluding material regulated under the bottle deposit law).

Steam

A taxpayer that purchased steam for resale, heating, generating electricity, or a manufacturing process could claim a credit against the SBT equal to the amount by which payments for steam purchased from a qualified

resource recovery facility exceeded \$6 per 1,000 pounds of steam, although the credit could not exceed \$2 per 1,000 pounds. This credit also could be claimed by a qualified resource recovery facility that sold steam to a person who was exempt from the SBT or the State Income Tax Act.

Proposed MCL 208.37c

FISCAL IMPACT

The bill would lead to an indeterminate reduction in GF/GP revenues. The fiscal cost to the State is the implicit cost of providing a 10-year, interest free, tax subsidy to firms generating energy from solid waste. The bill would lead to an estimated reduction in GF/GP revenues of \$7 million to \$10 million the first year, rising over the next 10 years to \$30 million to \$40 million as new plants generating electricity from solid waste are put into use. The bill, however, would levy a surcharge after 10 years to recoup 100% of the tax subsidy.

ARGUMENTS

Supporting Argument

Predictable markets are essential for the development of the industrial and economic infrastructure needed to sustain long-term resource recovery efforts in Michigan. The establishment of such markets, however, depends on the economic feasibility of producing and using recyclable materials and recycling processes ... the type of economic feasibility that would be made possible with the granting of tax credits for those who purchase, use or produce recycled materials.

Supporting Argument

Offering tax credits for the purchase and production of recycled materials is a very inexpensive way to promote the development of a labor intensive industry that helps to preserve the environment and nonrenewable fossil fuels, provide valuable fiber and other materials to the State's industries, save energy, reduce disposal costs for local units of government, and expand and diversify the State's economic base.

Opposing Argument

The bill would result in a significant reduction in General Fund revenues at a time when the

State is struggling under the ever-increasing financial burden of supporting its educational institutions and corrections system and coping with demands for tax reform.

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.