Michigan Manufacturers Association

Senate Finance Committee
Testimony on SB 1065- 1072

Mr. Chairman and Committee Members,

I am Mike Johnston, Vice President of Government Affairs for the Michigan Manufacturers Association. Thank you for the opportunity to speak today in support of the phase out of the industrial personal property tax. Let me start out by thanking you Mr. Chairman for taking the lead in sponsoring this package. I would also like to thank the other sponsors, Sen. Dave Robertson, Sen. Mike Nofs, Dave Hildenbrand, and Sen. Bruce Caswell. I would also like to the Lt. Gov Brian Calley for his leadership and dedicated work on this issue. We appreciate your collective recognition that elimination of the industrial personal property tax is essential in making Michigan truly competitive with other states for attracting and retaining capital investment. As manufacturing drives Michigan's economic recovery, we must eliminate obvious barriers to competitiveness and number one on the list must be eliminating Michigan's tax on machinery and equipment.

The importance of manufacturing to the Michigan economy

If anyone wonders why it is important to put Michigan manufacturers on a level playing field with other states, let give you a few facts. To be clear, Michigan is a manufacturing state. Despite some common perceptions, manufacturing remains the largest single sector of the Michigan economy, producing 19% of Michigan's gross state product. Manufacturing pays the highest average weekly wage of any other sector in the Michigan economy. Manufacturing directly employs 527,000 people as of January 2012. It should be noted, that while it is easy to think about the large iconic Michigan companies, 85% of our members have 100 employees or less.

Manufacturing truly is the engine that drives the Michigan economy and it is helping drive the national economy as well. In the last year, manufacturing in Michigan has created 32,400 jobs. Since January 2010, manufacturing has created 65,500 jobs. That is more than half of the total jobs created in Michigan in the last two years. The House Fiscal Agency predicts manufacturing will continue to lead non-manufacturing growth through 2014. To put Michigan into a national context, in the last year, more than one in ten manufacturing jobs created in America was created in Michigan.

Manufacturing brings an important economic dynamic to any economy, and the effect is especially important when manufacturing is the largest sector of the economy, as it is in Michigan. I am talking about the manufacturing's economic multiplier effect. For every dollar invested in manufacturing, several other dollars are invested throughout the supply. This can be thought of in terms of jobs. The best example, especially in Michigan, is the automobile industry. Think of the 3,000 parts that go into building an automobile. The Center for Automotive Research indicates that for every job created by an auto company, 7.6 jobs are created throughout the value chain. The economic multiplier effect in manufacturing is the main reason states work aggressively through tax policy and other means to attract manufacturing investment. Non-manufacturing investment generally does not bring that level of job growth to an economy.

To help highlight the importance of manufacturing in Michigan let me give you just a couple examples of the kinds of investments being made in Michigan:

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- **Hemlock Semiconductor Corporation** has invested nearly **$2.5 billion** in the last six years; they employ 2,000 people and currently have 200 construction workers on site everyday in Hemlock Michigan.
- **Dow Chemical** – plans a total of a **$1 billion** investment with 3,000 employees that includes 100 Ph.D. researchers and 300 engineers hired in the last year.
- **The three Michigan-based auto companies** are in the process of investing more than **$7 billion** in Michigan. Together these companies directly employ about 107,000 people in Michigan (Chrysler employs 25,000, Ford employs 40,000, and GM employs 42,000).

Manufacturers, both large and small are making new investments in Michigan. The magnitude of these investments in the aggregate, highlights how important this industry is to the future of Michigan.

Moving in the Right Direction

The reinvention of Michigan under the Snyder administration has been dramatic. Progress on business taxes has been going in the right direction. We now have a business tax that is more like the rest of the nation, in the form of a profits based tax. The anti-manufacturing gross receipts tax has been eliminated, and the Michigan Business Tax (MBT) surcharge is now gone.

Realities of the Corporate Income Tax

These are all positive changes; however, I need to point out some realities for manufacturers. While it is anticipated that there will be73% fewer total filers of the CIT compared to the MBT, for manufacturers there will be only 51% fewer filers. That means fewer manufacturers were exempt from the CIT. While 90 percent of manufacturers, by number of businesses, will do about the same or better under the Corporate Income Tax (CIT), ten percent of manufacturers will be paying substantially more under the CIT, and these tend to be larger manufacturers. There are a couple reasons for this. The Corporate Income Tax only applies to corporations, non-corporations were exempt. Since larger manufacturers tend to be corporations, the tax applies more directly on them. While I often hear the common perception that big corporations got a big tax cut under the CIT, the reality is exactly the opposite. Many corporations will see a substantial tax increase, and these are the companies that are driving Michigan's recovery. Secondly, the Michigan Business Tax included a 35% credit for the amount of personal property tax paid. This credit was not included in the CIT, so manufacturers saw an effective property tax increase on January 1, 2012. The Anderson Economic Group estimates the effective tax increase on manufacturers is 50% or about $150 million. In addition, the CIT does not include any of the credits commonly included in other state profits taxes that recognized the importance of investments manufacturers make, including R&D Tax credits, investment tax credits, employment tax credits or even headquarters tax credits.

The "Manufacturing Equipment Tax"

The current personal property tax on machinery and equipment or the "manufacturing equipment tax" as we call it, stands as a barrier to competition for Michigan manufacturers. This tax is paid annually on everything used to produce products including, items ranging from computers and desks, to assembly equipment such as metal presses or plastic injection mold machines. The term "personal property" is clearly a misnomer as individuals do not pay this tax in Michigan, only businesses. The tax falls most heavily on manufacturers, because of the high value of the equipment necessary to produce products. Ironically, this is the kind of investment we hope to retain and attract in Michigan, because it is used to create products and jobs. Additionally, in Michigan, this tax remains on the full life of equipment, which means equipment in use today that may have been purchased back in the 1940's continues to be taxed every year in Michigan.

PPT is an Uncompetitive Tax

The Anderson Economic Group (AEG) points out the that definition of "personal property" in General Property Tax Act of 1893 describes it as all property that is "movable." This helps highlight the uncompetitive nature of this tax. The state probably shouldn't tax the things it wants the most, job creating machinery and equipment, when by definition it is "moveable". The primary reason this tax is uncompetitive is that almost all of our Great Lakes competitor states have eliminated this tax. AEG indicates: Minnesota, Wisconsin, Illinois, Ohio, Pennsylvania, and New York do not impose this tax on manufacturing equipment. Indiana charges a tax, but at a much lower rate than Michigan. So, for example, a facility could be located five miles below the border in Ohio would be exempt from this tax, making Michigan a relatively less attractive location.

How much is the disincentive for locating equipment in Michigan compared to the states that exempt the industrial equipment? For 2010, the Michigan Department of Treasury estimated the revenue from industrial personal property tax to be $396 million. While a portion of that amount was offset by credits in the MBT, starting on January 1, 2012, the full tax will be imposed on Michigan companies, which would be exempt in almost all of the other Great Lake states. That is the competitive disadvantage for Michigan, about a $400 million disadvantage.

PPT Reform – Good for the Economy

The elimination of the industrial personal property tax is an important change for Michigan's business climate. The Anderson Economic Group estimates that the elimination of the combined effect of the CIT and PPT reforms could mean an additional 19,000 to 45,000 jobs when fully phased in.

In addition, AEG, anticipates that their ranking of tax burdens by state, with the passage of the CIT and PPT, when fully phased in would move Michigan from 25th to top ten in the nation.

Eliminating a barrier to investment in Michigan, and putting us on a level playing field with other states will be good for the Michigan economy.

Local Reimbursement Fund

We are pleased to see the reimbursement fund for local units that would be created in SB 1072. We are consumers of local services, such as police and fire and roads. We believe elimination of the industrial personal property tax removes a barrier for communities to both retain and attract industrial investment. Indeed, many communities have offered abatements to companies, recognizing, no doubt, the strong job multipliers effect brought by manufacturing investment.

It is worth pointing out that this package leaves in place two-thirds of the personal property tax revenue. There are three categories of personal property, Industrial, Commercial, and Utility. This package only proposed to eliminate the industrial portion, which only makes up about one third of the total. While some people have discussed the loss of $1.2 billion, this claim does not enjoy the benefit of being accurate.

The Anderson Economic Group study reveals that in 2010, approximately two-thirds of the townships and cities derived less than 1% of their taxable property values from industrial personal property tax. Some communities rely more heavily on the industrial personal property tax, but that is why we support inclusion of the reimbursement fund.

Our Preference

In reviewing the proposal, our members expressed some concern about the proposal. As we have stated earlier, since the CIT does not include the 35% credit for the amount of personal property tax paid, the effective tax rate on personal property will jump by $150 million in January 1, 2012. The proposal as introduced would not begin to phase out the tax for four years, or until 2016. Many investment decisions will be made in that period, so we would prefer that the phase out begin immediately, even if only at a low rate.

Having said that, let me be clear, we are very pleased that a substantial proposal has been placed on the table and we are very pleased that policymakers are working hard to eliminate this barrier to competition.

Conclusion

In closing, let me, thank you Mr. Chairman and all of the bill sponsors for their leadership. We believe that Michigan is going in the right direction and passage of this legislation would continue the strong sense of optimism among manufacturers for Michigan's future. As you know, when manufacturers are optimistic that means very good things for Michigan.

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