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BILL ANALYSIS

Senate Fiscal Agency

Lansing, Michigan 48909

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Senate Bill 227 (as reported without amendment)**Sponsor:** Senator Dick Posthumus**Committee:** Finance**Date Completed:** 5-19-87

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JUN 05 1987

High Office of the Legislature

RATIONALE

The Michigan Economic Development Authority (MEDA) Act of 1982 established a research center fund to create "centers of excellence": nonprofit research and development enterprises. The Michigan Strategic Fund Act, which replaced the MEDA Act, was designed in part to provide financial assistance to research and development enterprises. The Strategic Fund Act defines such enterprises as a person engaged in a business that has as its principal function the discovery of new substances and the refinement of known substances, processes, products, theories, and ideas. Business that primarily accumulate or analyze commercial, financial, or mercantile data are excluded from receiving aid. The Act specifies that enterprises that are aided should serve as a foundation for future job growth or retention in the State, and for the establishment of Michigan as a center of excellence in high technology.

It is the contention of some that these enterprises were intended to be exempt from property taxes as long as they remained nonprofit. In fact, Section 7n of the General Property Tax Act exempts from taxation real and personal property owned by a nonprofit, incorporated scientific institution. In 1985, however, the Industrial Technology Institute (ITI), a nonprofit enterprise funded under the Michigan Strategic Fund Act, was placed on the tax rolls by the City of Ann Arbor. In a subsequent hearing before a State Tax Tribunal referee, it was ruled that since no statute defines "scientific institution", and since the Act does not specifically provide for a tax exemption, the ITI's property was not exempt. It has been proposed that the Act be amended to specify that nonprofit research and development enterprises funded under the Act are exempt from property taxes.

CONTENT

The bill would amend the Michigan Strategic Fund Act to exempt from property taxes property owned or occupied by a nonprofit research and development enterprise that receives, or had received, financial aid of \$1 million or more under the Act or under the Michigan Economic Development Authority Act (which was repealed by the Michigan Strategic Fund Act). The property tax exemption would apply only while the property was occupied by a nonprofit research and development enterprise, and the work of the enterprise was solely for the purpose of researching and developing "present and emerging technology", and of the application of that technology to business and industry.

MCL 125.2074

FISCAL IMPACT

The bill would result in an indeterminate reduction in

property tax collections. The Department of Commerce reports that only three nonprofit research and development firms have received financial aid in excess of \$1 million, and only one of these firms has a current property tax assessment.

ARGUMENTS**Supporting Argument**

The Legislature needs to make it clear that research and development enterprises founded and funded under the MEDA or its successor, the Michigan Strategic Fund Act, are exempt from property taxes. One of the major goals of the MEDA was to promote the growth and diversification of the State's economy, and to accomplish that goal one of the strategies was to encourage the creation of nonprofit research and development enterprises, so that industries developing emerging technologies and new products would locate and thrive in Michigan. In order for the State to remain one of the leading producers of durable goods, and retain the jobs and commerce that result from such production, it is essential that the scientific, educational, and industrial communities work together. The bill specifies that the property of these research and development enterprises would remain tax exempt, so that the taxation of such property was not subject to interpretation by local assessors, and so that funding under the laws was used for its intended purpose rather than for taxes.

Opposing Argument

Every time the State grants a property tax exemption, the residents of the area, if they wish to maintain levels of funding for their schools and local governments, end up paying more taxes. This situation is particularly acute in Ann Arbor. Testimony before the Finance Committee revealed that 53% of the total property in the city is tax exempt; thus, a heavy burden is placed on the city's residents. If the State wishes to place a tax-exempt institution in certain areas, for whatever worthy causes, it should be willing to pay for the resulting shrinkage of the property tax rolls.

Response: It must be remembered that the creation of a research and development enterprise in an area will have many positive benefits, including the creation of jobs, and will act as a magnet for other enterprises. These benefits far outweigh the loss of taxes on an exempt property.

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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.

S.B. 227 (5-19-87)