Legislative Analysis

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TOOL AND DIE FOLLOW-UP

House Bill 5243 as enrolled
Public Act 202 of 2004
Sponsor: Rep. David Palsrok
House Committee: Commerce
Second Committee: Commerce and Labor

Second Analysis (1-20-05)

BRIEF SUMMARY: The bill would essentially provide that the recent tax advantages provided to eligible tool and die companies would also apply to those tool and die businesses that operate on leased property for which they are liable for property taxes (and would not apply only to business operating on property they own).

FISCAL IMPACT: As noted with the original tool and die legislation, the bill would reduce the tax liability of tool and die companies. The impact depends on the number and degree to which local governments participate.

THE APPARENT PROBLEM:

Recent legislation allowed for the creation of up to 20 tool and die recovery zones where eligible business would be granted virtually tax-free status for up to 15 years. The Michigan Strategic Fund designates the zones, which can only exist with local government consent. In crafting the legislation, policymakers overlooked a certain class of tool and die maker. To qualify for inclusion in a zone at present, property must be owned by the tool and die business and used for tool and die purposes. Some companies reportedly lease the property where they conduct operations, although they remain responsible for property taxes on the property. Legislation has been drafted that will allow such businesses to participate in the tool and die recovery zone program.

THE CONTENT OF THE BILL:

The bill would amend the Michigan Renaissance Zone Act to make certain property eligible for designation as a tool and die recovery zone. The additional property would be property leased by one or more qualified tool and die business for which that business is liable for ad valorem property taxes and that is used by the business or businesses primarily for tool and die business operations. A business would have to furnish proof of its ad valorem property tax liability.

Currently, the act only allows property owned by one or more qualified tool and die businesses and used by those qualified businesses primarily for tool and die business operations. The bill would provide a definition of the term "qualified tool and die business property" that would cover both property owned and property leased by a tool and die business.

Under the original legislation, to be a qualified tool and die business, a business must have fewer than 50 employees; have the proper classification in the North American industrial classification system (NAICS); and have entered a "qualified collaboration agreement" as approved by the MSF with other business entities in the appropriate NAICS classifications.

The bills would define a “qualified collaborative agreement” as an agreement that demonstrates synergistic opportunities, including sales and marketing efforts, development of standardized processes, development of tooling standards, standardized project management methods, and improved ability for specialized or small niche shops to develop expertise and compete successfully on larger programs.

House Bill 5243 would allow the board of the Michigan Strategic Fund to revoke the designation of all or part of a recovery zone with respect to one or more tool and die businesses if the businesses failed or ceased to participate in or comply with a qualified collaborative agreement.

MCL 125.2688d

ARGUMENTS:

For:

The bill would correct what has been described as an oversight in the recently enacted tax relief package for tool and die companies. It would extend tax benefits to companies that lease the property in which they conduct operations if they are liable for property taxes on the property. Supporters say this is in the spirit of the original intent of the legislation.

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