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S.B. 863 (S-1)-865 (S-2): FLOOR ANALYSIS

Senate Bill 863 (Substitute S-1 as reported by the Committee of the Whole) Senate Bill 864 (Substitute S-3 as reported by the Committee of the Whole) Senate Bill 865 (Substitute S-2 as reported by the Committee of the Whole)

Sponsor: Senator Bill Hardiman (S.B. 863) Senator Tom George (S.B. 864) Senator Virg Bernero (S.B. 865)

Committee: Economic Development, Small Business and Regulatory Reform

CONTENT

The bills would amend various acts to allow a qualified start-up business to claim a credit against or an exemption from various taxes for five consecutive years, beginning on December 31 of the year in which the business first claimed the credit allowed under Section 31a of the Single Business Tax (SBT) Act (proposed by Senate Bill 862).

(Under Senate Bill 862, a "qualified start-up business" would be a business that had fewer than 25 employees; had sales under \$1 million in the tax year for which the credit was claimed; was not publicly traded; and attributed at least 15% of its expenses for the tax year in which the credit was claimed to research and development.)

<u>Senate Bill 863 (S-1)</u> would amend the Income Tax Act to allow a qualified start-up business that did not have net income attributable to the business for two consecutive years to claim a credit against the income tax equal to its tax liability under the Act for the second year and each immediately following consecutive year in which the taxpayer had no net income attributable to the business.

<u>Senate Bill 864 (S-3)</u> would amend the General Property Tax Act to exempt real and personal property of a qualified start-up business from the collection of taxes under the Act, beginning in the year in which it claimed the proposed SBT credit, or the proposed income tax credit under Senate Bill 863 (S-1). Real and personal property of a qualified start-up business would not be exempt from collection of a special assessment levied by the local tax collecting unit; ad valorem property taxes specifically levied for the payment of principal and interest of obligations approved by the electors or obligations pledging the unlimited taxing power of the local governmental unit; or a regional enhancement property tax levied by an intermediate school district or a tax levied by a school district to create a sinking fund.

Senate Bill 865 (S-2) would amend Public Act 189 of 1983 to exempt real and personal property of a qualified start-up business from the tax levied under the Act, beginning in the year in which the taxpayer first claimed the proposed SBT credit or the proposed income tax credit. Under the Act, if real property exempt for any reason from ad valorem property taxation is leased, loaned, or otherwise made available to and used in connection with a business conducted for profit, the lessee or user is subject to taxation in the same amount and to the same extent as though the lessee or user owned the real property. Real and personal property of a qualified start-up business would not be exempt from collection of a special assessment levied by the local tax collecting unit; ad valorem property taxes specifically levied for the payment of principal and interest of obligations approved by the electors or obligations pledging the unlimited taxing power of the local governmental unit; or a regional enhancement property tax

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levied by an intermediate school district or a tax levied by a school district to create a sinking fund.

Legislative Analyst: Julie Koval

Proposed MCL 206.51f (S.B. 863) Proposed MCL 211.7gg (S.B. 864) Proposed MCL 211.181a (S.B. 865)

FISCAL IMPACT

Senate Bill 863 (S-1). Businesses would be able to claim the State income tax exemption proposed by this bill only if they claimed the single business tax (SBT) credit proposed by Senate Bill 862. Therefore, if Senate Bill 862 were enacted, it is estimated that Senate Bill 863 would reduce income tax revenue by about \$1 million; however, the loss in income tax revenue could be much larger. Under this bill, the owner of a company conducting research and development (R&D) and able to claim an SBT credit under Senate Bill 862, would receive an income tax exemption on both the income received from the R&D business and any income received from any other source. As a result, a very wealthy individual with a very large income would be able to receive a total exemption from the State income tax even if the income received from the R&D business were a very small portion of the owner's total income. A \$1 million loss in income tax revenue would reduce General Fund/General Purpose revenue by \$741,000 and School Aid Fund revenue by \$259,000. This will would not affect local government.

<u>Senate Bill 864 (S-3)</u>. Businesses would be able to claim the property tax exemption proposed by this bill only if they claimed the SBT credit proposed by Senate Bill 862. Therefore, if Senate Bill 862 were enacted, the property tax exemption proposed by Senate Bill 864 (S-1) would provide eligible businesses property tax reductions totaling \$0.5 million, assuming these businesses all own their own building. If these businesses lease the building in which they perform their work, then they would be paying property taxes only on their personal property. Under this scenario, it is estimated that the property tax reduction under this bill would be less than \$50,000.

The estimated loss in property tax revenue of \$0.5 million would have the following impact: State education property tax revenue, which is earmarked to the School Aid Fund, would be reduced \$60,000, local school property tax (18 mills) would be reduced \$177,000, and the remaining local property taxes would be reduced \$264,000.

<u>Senate Bill 865 (S-2)</u>. Businesses would be able to claim the property tax exemption proposed by this bill only if they claimed the SBT credit proposed by Senate Bill 862. If Senate Bill 862 were enacted, it is estimated that Senate Bill 865 (S-1) would result in a very minimal, if any, loss in property tax revenue.

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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.