



Telephone: (517) 373-5383 Fax: (517) 373-1986 TDD: (517) 373-0543

S.B. 866 (S-2)-868 (S-1): FLOOR ANALYSIS

Senate Bill 866 (Substitute S-2 as reported by the Committee of the Whole) Senate Bill 867 (Substitute S-1 as reported by the Committee of the Whole) Senate Bill 868 (Substitute S-1 as reported by the Committee of the Whole)

Sponsor: Senator Cameron S. Brown (S.B. 866) Senator Gerald Van Woerkom (S.B. 867)

Senator Alan Sanborn (S.B. 868)

Committee: Economic Development, Small Business and Regulatory Reform

CONTENT

The bills would amend various acts to exempt a qualified start-up business from specific taxes levied under those acts, 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) or the income tax credit proposed by Senate Bill 863.

(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 866 (S-2)</u> would amend the City Income Tax Act to allow a qualified start-up business to claim a credit against the city income tax, for five consecutive years beginning on December 31 of the year in which the business first claimed the proposed SBT credit or the proposed income tax credit. If the city income tax credit and any unused carryforward exceeded the taxpayer's tax liability for the tax year, the excess could not be refunded but could be carried forward as an offset to the tax liability in subsequent tax years, for 10 tax years or until the excess credit was used up, whichever occurred first.

<u>Senate Bill 867 (S-1)</u> would amend Part 511 (Commercial Forests) of the Natural Resources and Environmental Protection Act to exempt commercial forestland owned or operated by a qualified start-up business from the annual specific tax levied on commercial forests under the Act, beginning in the year in which the business claimed the proposed SBT credit or the proposed income tax credit.

<u>Senate Bill 868 (S-1)</u> would amend the Enterprise Zone Act to exempt a facility owned or operated by a qualified start-up business from the specific tax imposed on facilities in enterprise zones, beginning in the year in which the business claimed the proposed SBT credit or the proposed income tax credit.

MCL 141.635a (S.B. 866) 324.51105 (S.B. 867) 125.2121c (S.B. 868) Legislative Analyst: Julie Koval

FISCAL IMPACT

The bills are not tie-barred to Senate Bill 862, but if Senate Bill 862 were not enacted, the bills would have no fiscal impact.

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<u>Senate Bill 866 (S-2).</u> If Senate Bill 862 were enacted, Senate Bill 866 (S-2) would reduce local unit revenue by an unknown small amount.

Further, because the bill would reduce city income tax liability, the State income tax would benefit by a small amount because taxpayers would claim less under the city income tax credit. (Senate Bill 863 would allow qualified start-up businesses to claim a credit against their State income tax. Senate Bill 866 (S-2) is not tie-barred to that bill.)

<u>Senate Bill 867 (S-1)</u>. If Senate Bill 862 were enacted, this bill would reduce local and State School Aid Fund revenues by approximately zero. Commercial forest tax revenues are expected to total approximately \$2.7 million in FY 2003-04. No estimates are available on the portion of commercial forests owned or operated by nonpublicly traded businesses with fewer than 25 employees and sales of less than \$1 million, that failed to make a profit but had liability under the SBT Act. However, data indicate that in 2000 no research and development money was spent in Michigan by firms in the forestry sector--suggesting the bill would have no impact on revenues.

Senate Bill 868 (S-1). If Senate Bill 862 were enacted, Senate Bill 868 (S-1), together with Senate Bills 870-873 (which propose similar exemptions) would reduce State and local revenue and increase School Aid Fund expenditures by an unknown and likely negligible amount. To be eligible for the exemption, a firm would need to be a nonpublicly traded business with fewer than 25 employees, sales of less than \$1 million, and research and development expenditures of at least 15% of expenses, and not show a profit but still have an SBT liability. Based on current estimates, the total of all property taxes on the property of such businesses is approximately \$500,000, without accounting for areas such as renaissance zones, enterprise zones, brownfield zones, etc. or special provisions such as those regarding obsolete property that has been rehabilitated. What share of this property is located in an enterprise or other zone is unknown, but if 10% of this property were located in areas affected by these bills or were property affected by these bills, the bills would reduce State and local revenue by less than \$50,000. Because School Aid Fund payments to school districts increase as locally raised revenue declines, a decline in locally raised revenue under the bill would increase payments, by less than \$50,000, from the School Aid Fund.

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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.