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BILL ANALYSIS

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Senate Bill 869 (Substitute S-1 as passed by the Senate)
Sponsor: Senator Patricia L. Birkholz
Committee: Economic Development

Date Completed: 4-8-04

RATIONALE

Michigan has experienced substantial job losses over the past few years. Small businesses, traditionally a vital part of the State's economy, are often identified as a potential area for job creation and economic recovery. In particular, small, high-technology firms have received much attention recently. It has been suggested that these small research and development firms should be offered relief from the State's industrial facilities tax, which applies to facilities in plant rehabilitation or industrial development districts.

CONTENT

The bill would amend the plant rehabilitation and industrial development Act (commonly referred to as P.A. 198) to create a five-year exemption from the industrial facility tax for a speculative building, new facility, or replacement facility owned or operated by a "qualified start-up business", as defined by Senate Bill 862, which would create a single business tax credit for start-up businesses.

Under Senate Bill 869 (S-1), the five-year period for the exemption would begin December 31 of the year in which the qualified start-up business first claimed the credit under Section 31a of the Single Business Tax Act. (Section 31a would be added to the Act by Senate Bill 862 and would define "qualified start-up business" as a business that had fewer than 25 full-time employees; had sales of less than $1 million in the tax year for which the credit was claimed; and was not publicly traded. Additionally, research and development would have to make up at least 15% of its expenses in the tax year for which the credit was claimed.)

Within 60 days of becoming exempt from the industrial facility tax, a qualified start-up business would have to file an exemption affidavit with the assessor of the local tax collecting unit.

Start-up businesses that would qualify for the exemption from the industrial facility tax would not be exempt from that portion of the tax attributable to special assessments levied by the local tax collecting unit in which the property is located; 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 school districts' enhancement millage or sinking fund tax levies. This portion of the industrial facility tax would not be exempt would have to be collected and disbursed proportionately to the taxing unit or units that levied the tax.

MCL 207.561

BACKGROUND

Under P.A. 198, a local unit of government may establish plant rehabilitation districts and industrial development districts. Owners of certain types of facilities within those districts may apply for and receive an industrial facilities exemption certificate. A facility or portion of a facility for which a certificate is in effect is exempt from ad valorem real and personal property taxes and is subject, instead, to the industrial facility tax imposed under the Act. For a new facility, the industrial facility tax is one half the amount of ad valorem property taxes on the facility, plus mills levied under the State Education Tax Act.

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

To address the substantial job loss that has occurred in Michigan over the past few years, the State must consider new industries and new ways to create jobs. Small, fast-growing, high-tech firms present promising opportunities for economic recovery. It is critical that the State offer a business environment that attracts new companies and retains those already here. By offering start-up businesses a five-year exemption from the industrial facility tax, the bill would help keep Michigan competitive with surrounding states that also are offering incentives for new businesses. This exemption would be in addition to other incentives for start-up businesses proposed by Senate Bill 862 and other legislation recently passed by the Senate.

Legislative Analyst: J.P. Finet

FISCAL IMPACT

This bill would reduce local government revenue and School Aid Fund revenue by an unknown and probably very small amount. It is estimated that total property taxes paid by businesses that would qualify as a start-up business, as defined in Senate Bill 862, would equal $500,000. There is no way to know how many of these eligible firms are subject to the industrial facilities tax, but if 10% of these total property taxes were derived from the industrial facilities tax, then Senate Bill 869 (S-1) would reduce revenue by $50,000, of which local government property taxes would be reduced an estimated $25,000. Local school tax revenue also would be reduced by about $25,000, but a school's share of industrial facilities taxes is deposited into the School Aid Fund, so the loss of this revenue would affect the School Aid Fund. The first year in which a qualified taxpayer could receive this exemption would be 2006.

Fiscal Analyst: Jay Wortley