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BILL ANALYSIS

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Senate Bill 869 (as introduced 12-2-03)
Sponsor: Senator Patricia L. Birkholz
Committee: Economic Development

Date Completed: 3-30-04

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 to 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. Start-up businesses that would qualify for the exemption from the industrial facility tax would not be exempt from the collection of 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.

Under Senate Bill 869, 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.

The portion of the industrial facility tax from which qualified start-up businesses 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. Taxes levied under the General Property Tax Act and the industrial facility taxes under P.A. 198 are collected in the same manner by local tax collecting units.

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 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.

Fiscal Analyst: Jay Wortley