MMA Testimony

Michigan House of Representatives

Tax Policy Committee

HB 4361 (Gilbert) & HB 4362 (Gilbert)

3/23/11

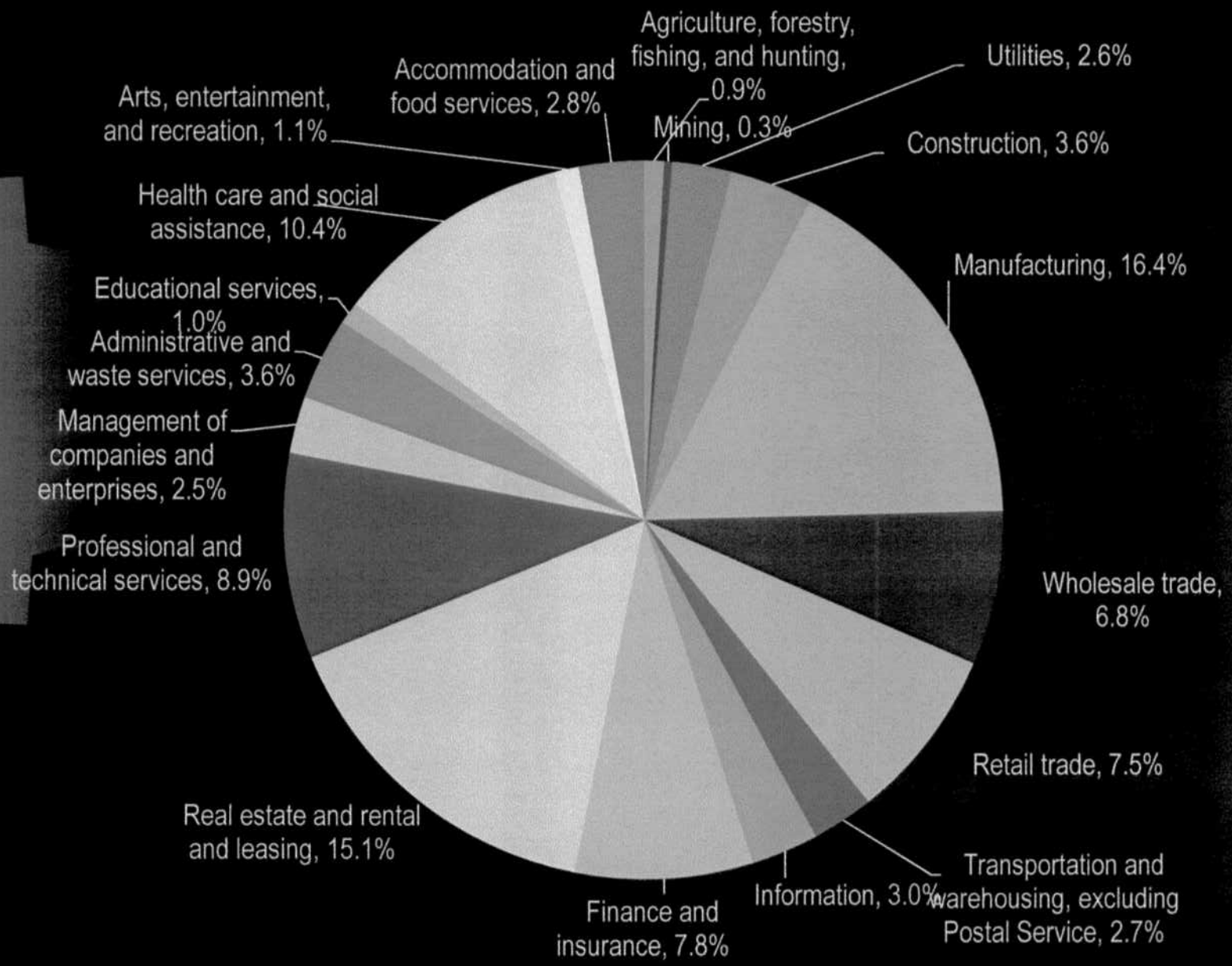
Mike Johnston

VP Government Affairs

What is Manufacturing?

- High Capital Investment (Real & Personal Property, R&D)
- Relatively High Wages & Good Benefits
- High Economic Multiplier Effect
- Compete on the Basis of Cost in Global Economy

GPS By Sector 2009



Source: Bureau of Economic Analysis, U.S. Department of Commerce

Manufacturing Investments

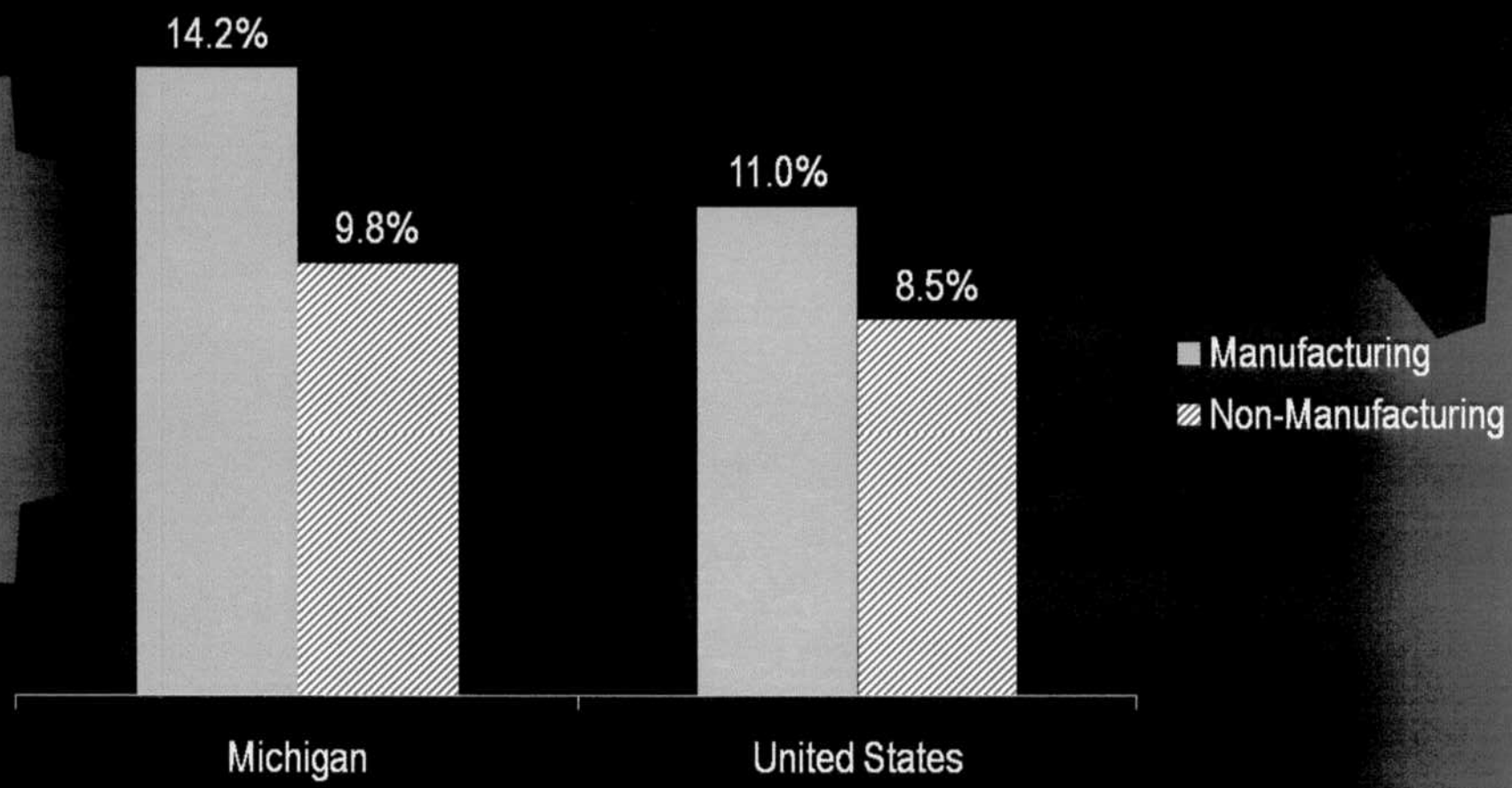
- Michigan manufacturers invest billions of dollars in our state each year. Here are some significant recent examples:
  - Hemlock Semiconductor Corporation invested nearly **$2.5 billion** in the last six years , they employ 2,000 people and currently have 500 construction workers on site everyday in Hemlock Michigan.
  - Dow Chemical – plans a total of a **$1 billion** investment with 3,000 employees that includes 100 Ph.D. researchers and 300 engineers hired in the last year.
  - The three Michigan-based auto companies have invested about **$4.5 billion** in Michigan in the last year and half – some of the most challenging in the industry's history. Together these companies directly employ 110,000 people in Michigan (Chrysler employs 25,000, Ford employs 40,000, and GM employs 45,000).

Employment Multiplier Effect

Automotive Value Chain

- OEM to Suppliers 3.9 Multiplier
- Suppliers to Spin-off 3.7 Multiplier
- Total Automotive 7.6 Multiplier

Effective Tax Rates for Manufacturers in Michigan Compared to Other States, 2009 (MBT)



Source: Estimates prepared by Ernst & Young LLP. Michigan business and property tax information is from Michigan Department of Treasury. All other tax data is based on E&Y estimates of the business share of state and local taxes, by tax type, reported in U.S. Census Bureau, *State and Local Government Tax Collections.*

New CIT Tax

- Eliminates gross receipts tax
- Eliminates the surcharge
- Eliminates double taxation for pass through organizations
- Mechanism to honor certificated credit commitments

Incidence - Personal Property Tax

- CIT – Eliminates 35% industrial PPT credit
- PPT falls more heavily on manufacturing on a per-taxpayer basis - More capital intensive, greater liability – "industrial equipment tax"
- Michigan has highest PPT rates in the nation*
- Most other states don't have manufacturing PPT or it is small
- Taxable Value of Industrial Personal Property = $11,102,300,000
- Industrial Personal Property Tax Levy = $333,900,000

Michigan Dept of Treasury Sept. 2010 Statistical update (2008 data)

*Minnesota Taxpayers Association – April 2010

MMA Priorities

- MMA Agenda
  - Elimination of Industrial Personal Property Tax
  - Eliminate gross receipts tax
  - Eliminate the surcharge
  - Benchmark "Effective Tax Rate" for manufacturers
- Key Issues:
  - Retain Industrial PPT relief, until PPT is eliminated
  - Protect existing agreements - certificated credits