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SBT CREDIT FOR USING RECYCLABLE MATERIALS

House Bill 6047 (Substitute H-3)
Sponsor: Rep. Robert Brackenridge

House Bill 6172 (Substitute (H-1))
Sponsor: Rep. Paul Wojno

First Analysis (9-24-98)
Committee: Tax Policy

THE APPARENT PROBLEM:

One of the proposals that been promoted during the deliberations of the Subcommittee to Explore the Environmental Sensitivity of the Michigan Tax Code is a tax credit for companies that use recycled materials in the manufacturing process. The idea behind this is to provide an incentive for companies to purchase the machinery and equipment needed to take recycled materials and make them into finished products. At the same time, this would produce an increased demand for recovered and recycled materials. The use of such materials reduces the amount of waste going to landfills and incinerators.

THE CONTENT OF THE BILLS:

House Bill 6047 would amend the Single Business Tax Act to allow a credit, from 1999 through 2008, equal to 20 percent of the amount paid in the tax year to purchase machinery and equipment used exclusively in or on the premises of a manufacturing facility in Michigan used to manufacture, process, compound, or produce items of tangible personal property from recyclable materials for sale or to process post-consumer waste material exclusively to produce finished products. House Bill 6172 would create a similar credit for the installation of such machinery and equipment.

The total amount of the credits could not exceed 20 percent of the total amount paid by a taxpayer in the tax year to purchase and install machinery and equipment. Further, the total amount allowable as credits could not exceed 20 percent of the tax liability for that year (as determined before calculating the credits). If the credits exceeded 20 percent of the tax liability, the excess could be carried forward to offset

tax liability in subsequent years for 10 years or until used up, whichever came first.

To qualify for either credit, a taxpayer would have to submit with the annual return 1) certification from the Department of Environmental Quality that the machinery and equipment were integral to the recycling process; and 2) purchase receipts, invoices, and other auditable documentation of the cost paid for the machinery and equipment and the cost of installation.

The costs paid for machinery and equipment that were used to calculate the credits created by these bills could not be used to calculate a credit under Section 23 (the capital acquisition deduction).

The bill contains definitions of the terms "manufacturing facility" and "recyclable materials". The term "manufacturing facility" would refer to buildings and structures the primary purpose of which is either 1) the manufacture of goods or materials or the processing of goods and materials by physical or chemical change; or 2) the provision of research and development laboratories of companies whether or not the company manufactures the products developed from their research activities. The term "recyclable materials" would refer to any product generated by a taxpayer that has served its intended end use and that has been separated from solid waste for the purpose of collection, marketing, and disposition and that does not include demolition waste or more than 15 percent secondary waste material or demolition waste. "Secondary waste material" refers to waste material generated after the completion of a manufacturing process.

MCL 208.39c and 208.39d

House Bills 6047 and 6172 (9-24-98)

FISCAL IMPLICATIONS:

The House Fiscal Agency notes that the bills would decrease state revenues by an indeterminate amount. (HFA fiscal note on House Bill 6047 dated 9-22-98)

ARGUMENTS:

For:

The bills would help to make the Michigan tax code more environmentally sensitive by encouraging the use of recycled materials in manufacturing. They offer tax credits as an incentive for companies to purchase the necessary machinery and equipment. Recycling, say advocates, reduces the use of raw materials and reduces the amount of waste that otherwise would go to landfills and incinerators.

Response:

Some people have suggested that the percentage of SBT liability used as a limit for the recycling credit should be raised (to 30-50 percent) in order to provide a purchase incentive for small or moderate sized businesses.

POSITIONS:

The Department of Treasury is still reviewing the bills. (9-23-98)

Among those who have indicated support for the credits are the Michigan Environmental Council; the Michigan Recycling Coalition; and the Michigan Chemical Council. (9-23-98)

The Michigan Manufacturers Association supports the bill. (9-23-98)

Analyst: C. Couch

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.