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House Bills 4454 and 4472 (as passed by the House)
Sponsor: Representative Jacob Hoogendyk (House Bill 4454)
Representative Alexander C. Lipsey (House Bill 4472)
House Committee: Commerce
Senate Committee: Commerce and Labor

Date Completed: 6-10-03

CONTENT

House Bills 4454 and 4472 would amend the Michigan Economic Growth Authority (MEGA) Act and the General Property Tax Act, respectively, to allow an "eligible pharmaceutical company" to receive certain credits under the Single Business Tax Act, and to authorize a local tax collecting unit to exempt from property taxes all new personal property owned or leased by an eligible pharmaceutical company located in that local unit.

"Eligible pharmaceutical company" would mean a company that met all of the following criteria:

- The company was engaged primarily in the manufacture, research and development, and sale of pharmaceuticals.
- The company had at least 8,500 employees located in Michigan, all of whom were located within a 100-mile radius either of each other (under House Bill 4454) or of the local tax collecting unit that offered an exemption (under House Bill 4472).
- At least 5,000 of the employees located in Michigan were engaged primarily in research and development of pharmaceuticals.

Under the definition in House Bill 4454, an "eligible pharmaceutical company" also would have to enter into a written agreement with MEGA within 18 months after the bill's effective date.

House Bill 4454

Under the MEGA Act, after receiving an application, the Authority may enter into an agreement with an eligible business for certain single business tax (SBT) credits, if it determines that various conditions have been met. The conditions include the creation and maintenance of a specified number of qualified new jobs. Under the bill, an eligible pharmaceutical company also would have to create a minimum of five qualified new jobs within 12 months of the company's expansion or location in Michigan and agree to maintain at least five qualified new jobs at the facility for each year that an SBT credit was authorized.

"Eligible business" means a business that proposes to maintain retained jobs or to create qualified new jobs in Michigan in certain fields. "Qualified new job" means either 1) a full-time job created by an "authorized business" at a facility that is in addition to the number of full-time jobs the business maintained in Michigan before its expansion or location, as determined by MEGA; or 2) for jobs created after July 1, 2000, a full-time job at a facility created by an eligible business that is in addition to the number of full-time jobs maintained by that business in Michigan 120 days before the business became an authorized business, as determined by

MEGA. "Authorized business" means an eligible business with which MEGA has entered into a written agreement for an SBT credit.

House Bill 4472

The General Property Tax Act allows the governing body of an eligible local assessing district to adopt a resolution exempting from taxation under the Act all new personal property owned or leased by an eligible business located in one or more eligible districts designated in the resolution. ("Eligible local assessing district" means a city, village, or township that contains an "eligible distressed area", as defined in the State Housing Development Authority Act. "Eligible business" means a business engaged primarily in manufacture, mining, research and development, wholesale trade, or office operations. "Eligible district" means an industrial development district; a renaissance zone; an enterprise zone; a brownfield redevelopment zone; an empowerment zone; an authority district or a development area under the Tax Increment Finance Authority Act; or a downtown district or a development area under the downtown development authority Act.)

Under the bill, within 18 months after its effective date, the governing body of a local tax collecting unit also could adopt a resolution to exempt from taxation under the Act all new personal property owned or leased by an eligible pharmaceutical company located in that local unit. The clerk of the local unit would have to notify in writing the local unit's assessor and the legislative body of each taxing unit that levied ad valorem property taxes in the local unit. Before acting on the resolution, the local unit's governing body would have to give the assessor and a representative of the affected taxing units an opportunity for a hearing.

Under the Act, within 60 days after receiving a copy of a resolution authorizing a personal property tax exemption, the State Tax Commission must approve or disapprove the resolution. The State Treasurer, with the written concurrence of the President of the Michigan Strategic Fund, must advise the Commission as to whether exempting an eligible business's new personal property is necessary to reduce unemployment, promote economic growth, and increase capital investment in Michigan. Under the bill, those requirements also would apply to a resolution exempting an eligible pharmaceutical company's new personal property from taxation.

The Act defines "new personal property" as personal property that was not previously subject to tax under the Act and that is placed in an eligible district after a resolution exempting the property from taxation is approved by the eligible local assessing district. The bill would include in that definition personal property that was placed in a local tax collecting unit after a resolution authorized by the bill was approved by the governing body of the local tax collecting unit.

MCL 207.803 et al. (H.B. 4454)
211.9f (H.B. 4472)

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

House Bill 4454

If the Authority were to provide an SBT credit that otherwise would not be provided to another taxpayer, the bill would reduce General Fund/General Purpose revenues by an unknown and potentially significant amount. The bill would reduce revenues only if MEGA were to find that an eligible pharmaceutical company met the job creation and investment eligibility requirements and if the credit would be in addition to or replace and exceed what would be provided to other taxpayers under the current law. The reduction in revenues also assumes that while the definition of eligible business, which a company must meet to receive a credit, does not include an eligible pharmaceutical company, the bill would be interpreted to allow the eligible pharmaceutical company to receive the credit.

The bill likely would have little effect on the intrastate distribution of activity for an eligible pharmaceutical company and thus little impact on local revenues. Based on the information available, the only company in Michigan that apparently would qualify as an eligible pharmaceutical company is Pfizer, Inc., which still could relocate employees within the State (for instance, all 8,500 employees could be located at the same facility and not spread out across a 100-mile radius) and still meet the qualifications to receive the credit.

House Bill 4472

The bill would reduce local unit revenues by an unknown and potentially significant amount, assuming that a local unit were to exempt new personal property, that the property otherwise would be acquired, and that the exemption of property for an eligible pharmaceutical company would not affect other exemptions that otherwise might be approved or continued under current law. The amount of revenue loss would depend upon how much new personal property an eligible pharmaceutical company purchased and how long the property was exempted under the resolution.

These estimates are preliminary and will be revised as new information becomes available.

Fiscal Analyst: David Zin