

# Legislative Analysis

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## MEGA CREDIT EXPANSION

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**House Bill 4922 (Substitute H-1)**

**Sponsor: Rep. Ed Clemente**

**Committee: New Economy and Quality of Life**

**Complete to 5-29-09**

## A SUMMARY OF HOUSE BILL 4922 AS REPORTED FROM COMMITTEE

The bill would amend the Michigan Economic Growth Authority Act to:

- Increase the number of MEGA tax credits that may be awarded
- Eliminate a current investment requirement for certain high technology businesses which would make it easier for eligible businesses to receive the tax credit.

### **Number of Credits**

The bill would increase from 400 to 500 the number of yearly credits entered into for businesses that are not qualified high-technology businesses, distressed businesses, rural businesses, or historic resource businesses. (Note: If a business in this category is awarded a credit for 20 years, that would be considered 20 yearly credits rather than one credit.)

The bill would increase from 50 to 75 the number of new written agreements each year for qualified high-technology businesses or rural businesses. Only 35 of those (rather than 25 currently) could be for rural businesses.

### **High-Tech Research and Development Criterion**

The bill would delete a requirement for qualified high-technology businesses that at least 25 percent of the business's total operating expenses would be for research and development in the first three years of the written agreement.

MCL 207.808

## **FISCAL IMPACT:**

House Bill 4922 would reduce the Michigan Business Tax revenue (MBT) by an indeterminate amount. The bill would increase the number of MEGA tax credits that may be awarded and would eliminate a current investment requirement for certain high technology businesses which would make it easier for eligible businesses to receive the tax credit. MBT tax revenue is deposited into the State General Fund. The bill would not have a direct fiscal impact on local units of government.

MEGA tax credits are a refundable tax credit against the Michigan Business Tax (MBT) to companies expanding or relocating their operations in Michigan. Each credit may be awarded for up to 20 years and may equal up to 100 percent of the amount equal to the personal income tax generated by new workers. The MEGA board must approve the tax credits and a local government or a local economic development organization must make a financial or economic commitment to the project.

In addition to increasing the amount of tax credits that can be awarded, the bill would eliminate a current requirement that if the eligible business receiving the tax credit is a qualified high technology business, then the business must maintain at least 25% of the total operating expenses of the business for research and development for the first three years of the agreement.

The bill would reduce the MBT revenue to the General Fund by an indeterminate amount. The reduction in revenue would be dependent upon several factors, including the number of additional businesses that are awarded the MEGA tax credit under the revised requirements, the total amount of new credits awarded by the MEGA Board, and the level of business activity of these companies.

According to the MEDC, in FY 2008, there were 84 approved MEGA projects with companies that provided individual MEGA annual tax credits. The total amount for these tax credits is estimated to be \$609.1 million. The MEDC estimates that there will be a job impact of approximately 28,000 direct jobs associated with the tax credits of these projects.

## **POSITIONS:**

The Michigan Economic Development Corporation (MEDC) supports the bill. (5-20-09)

Dow Corning has indicated support for the bill. (5-13-09)

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