



Senate Fiscal Agency  
P. O. Box 30036  
Lansing, Michigan 48909-7536



Telephone: (517) 373-5383  
Fax: (517) 373-1986  
TDD: (517) 373-0543

Senate Bill 773 (Substitute S-4 as reported)  
Senate Bill 774 (Substitute S-2 as reported by the Committee of the Whole)  
Sponsor: Senator Nancy Cassis  
Committee: Finance

## **CONTENT**

Senate Bill 773 (S-4) would amend the Michigan Economic Growth Authority (MEGA) Act to revise the annual limits on new agreements for Michigan Business Tax (MBT) credits under the MEGA Act.

The Act prohibits MEGA from executing new written agreements each year that provide for more than 400 yearly credits over the terms of those agreements entered into that year for eligible business that are not qualified high-technology businesses, distressed businesses, rural businesses, or other specified businesses. Under the bill, that limit would apply through December 31, 2008. For 2009, MEGA could not execute new written agreements that provided for more than 400 yearly credits over the terms of the agreements entered into that year, plus up to 85 additional yearly credits previously issued by the Authority. For 2010 and subsequent calendar years, MEGA could not execute new written agreements that provided for more than 300 yearly credits over the terms of the agreements entered into that year, plus up to 85 additional yearly credits previously issued by the Authority.

"Credits previously issued" would mean two-thirds of the number of tax credits authorized by MEGA for an authorized business beginning in 1999 for which the authorized business did not use any of the tax credits authorized under the written agreement, and for which the authorized business no longer qualifies as an authorized business, as determined by MEGA.

Under the Act, MEGA may not execute more than 50 new written agreements each year for eligible businesses that are qualified high-technology businesses or rural businesses. Only 25 of those agreements may be executed each year for qualified rural businesses. The bill would increase those limits to 75 and 35, respectively. Only 50 of those agreements could be executed each year for a high-technology business that engaged in a qualified high-wage activity, and only four could provide for a tax credit with a duration of more than 12 years.

The bill also would do the following:

- Require MEGA to determine that an eligible business, if locating in Michigan, would not compete with established Michigan businesses, and that a qualified high-technology business agreed that at least 15%, rather than 25%, of its total operating expenses would be for research and development for the first three years.
- Prohibit MEGA from advocating one Michigan location over another.
- Prescribe a financial penalty for a business's misrepresentation in its application to MEGA for an MBT credit.
- Prohibit MEGA from entering into an agreement for MBT credits under the limit for high-technology or rural businesses if the business had claimed a film tax credit.
- Revise and expand the requirements for MEGA's annual report to the Legislature.
- Require the Auditor General to audit and comment on the annual report before MEGA submitted it.

Senate Bill 774 (S-2) would amend the Michigan Business Tax Act to establish a limit on the total amount of MBT credits certified by MEGA that could be claimed annually.

Section 431 of the Act allows a taxpayer that is an authorized business to claim an MBT credit equal to the amount certified each year by MEGA, for up to 20 years as determined by MEGA, for all or a portion of the business's payroll and, in some cases, health care benefits. Under the bill, for 2010 and each subsequent calendar year, the total amount of all credits claimed in the first year of all agreements approved under Section 431 could not exceed the sum of the total amount of credits claimed under that section during the immediately preceding calendar year plus \$95.0 million.

Senate Bill 773 (S-4) is tie-barred to Senate Bills 70 and 774. Senate Bill 774 (S-2) is tie-barred to Senate Bills 70, 71, and 773. (Senate Bill 70 (S-1) would require the State Treasurer to divulge certain information concerning the MBT Act to the chairpersons of the Senate and House standing committees with jurisdiction over matters relating to taxation and finance, and to the directors of the Senate and House Fiscal Agencies. Senate Bill 71 (S-1) would revise and expand the requirements for MEGA's annual report to the Legislature and require the Auditor General to audit and comment on the report.)

MCL 207.808 & 207.810 (S.B. 773)  
208.1431 (S.B. 774)

Legislative Analyst: Patrick Affholter

### **FISCAL IMPACT**

Senate Bill 773 (S-4) would reduce General Fund revenue from the Michigan Business Tax by an unknown amount. The amount of reduction would depend upon the specific characteristics of the credits granted to affected taxpayers, as well as the specific characteristics of their performance. The penalties in the bill would increase revenue by an unknown amount, depending on how many taxpayers were penalized. That increase, however, is expected to be more than offset by the increased number of credits authorized under the bill. Credits authorized under the section affected by the bill are expected to total \$94.6 million during fiscal year 2008-09.

Senate Bill 774 (S-2) would limit the growth in credits authorized under the statute. The growth in awarded credits (which results in a reduction in revenue) would be limited to the amount of credits claimed in the immediately preceding year plus \$95.0 million. The limit would apply only to the value of credits in the first year the agreements were approved and apparently would not apply to later years. As a result, revenue would be expected to decline, and could decline by more than \$95.0 million in an individual fiscal year.

Date Completed: 9-9-09

Fiscal Analyst: David Zin

Floor\sb773

This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.