



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

Senate Bills 867, 868, 870 through 873, and 875 (as introduced 12-2-03)

Sponsor: Senator Gerald Van Woerkom (S.B. 867)

Senator Alan Sanborn (S.B. 868) Senator Alan L. Cropsey (S.B. 870) Senator Ron Jelinek (S.B. 871) Senator Bruce Patterson (S.B. 872) Senator Jason E. Allen (S.B. 873) Senator Jud Gilbert, II (S.B. 875)

Committee: Economic Development, Small Business and Regulatory Reform

Date Completed: 12-10-03

CONTENT

The bills would amend various acts to exempt a qualified start-up business from specific taxes levied under those acts, for five years beginning on December 31 of the year in which the business first claimed the credit allowed under Section 31a of the Single Business Tax Act (proposed by Senate Bill 862).

The tax exemptions would not apply to that portion of the tax attributable to a tax described in Section 7ff(2) of the General Property Tax Act. (Under that section, real and personal property in a renaissance zone is not exempt from collection of the following:

- -- A special assessment levied by the local tax collecting unit in which the property is located.
- -- Ad valorem property taxes specifically levied for the payment of principal and interest of obligations approved by the electors or obligations pledging the unlimited taxing power of the local governmental unit.
- -- A tax levied under certain sections of the Revised School Code providing for enhanced property taxes and a sinking fund levy.)

The taxes calculated under the bills would have to be disbursed proportionately to the taxing unit or units that levied the tax described in Section 7ff(2).

(Senate Bill 862 would add Section 31a to the Single Business Tax Act to create a single business tax credit for a qualified start-up business that did not have a profit for a tax year. The credit would apply for that tax year and any of the immediately following four tax years in which the taxpayer did not have a profit. The credit would equal the taxpayer's tax liability for the tax year. "Qualified start-up business" would mean a business that had fewer than 25 full-time equivalent employees; had sales under \$1 million in the tax year for which the credit was claimed; and was not publicly traded; also, research and development would have to make up at least 15% of the business's expenses in the tax year for which the credit was claimed.)

<u>Senate Bill 867</u> would amend Part 511 (Commercial Forests) of the Natural Resources and Environmental Protection Act, to exempt commercial forestland owned or operated by a qualified start-up business from the annual specific tax levied on commercial forests under the Act.

<u>Senate Bill 868</u> would amend the Neighborhood Enterprise Zone Act to exempt a facility owned or operated by a qualified start-up business from the specific tax imposed on facilities in neighborhood enterprise zones.

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<u>Senate Bill 870</u> would amend the Obsolete Property Rehabilitation Act to exempt a rehabilitated facility owned and operated by a qualified start-up business from the obsolete properties tax, which is levied upon the owner of a rehabilitated facility to which an obsolete property exemption certificate is issued.

<u>Senate Bill 871</u> would amend the Neighborhood Enterprise Zone Act to exempt a new or rehabilitated facility owned or operated by a qualified start-up business from the neighborhood enterprise zone tax, which is imposed on the owner of a new or rehabilitated facility to which a neighborhood enterprise zone certificate is issued.

<u>Senate Bill 872</u> would amend the Technology Park Development Act to exempt a qualified startup business from the technology park facilities tax, which is levied upon every owner and every user or occupant, if known, of a facility to which a certificate is issued under the Act.

<u>Senate Bill 873</u> would amend the Commercial Redevelopment Act to exempt a facility owned or operated by a qualified start-up business from the commercial facilities tax, which is levied upon every owner of a new, replacement, or restored facility to which a commercial facilities exemption certificate is issued.

<u>Senate Bill 875</u> would amend the City Utility Users Tax Act to exempt a qualified start-up business from the tax imposed in the City of Detroit on intrastate telephone communication services, electrical energy, steam, and natural and artificial gas provided by a public utility or a resale customer.

MCL 324. 51105 (S.B. 867) 125.2121c (S.B. 868) 125.2790 (S.B. 870) 207.779 (S.B. 871) 207.712 (S.B. 872) 207.662 (S.B. 873) 141.1155 (S.B. 875) Legislative Analyst: Julie Koval

FISCAL IMPACT

Senate Bill 867

The bill would reduce local and State School Aid Fund revenues by approximately zero. Commercial forest tax revenues are expected to total approximately \$2.7 million in FY 2003-04. No estimates are available on the portion of commercial forests owned or operated by nonpublicly traded businesses with fewer than 25 employees and sales of less than \$1 million, that failed to make a profit but had liability under the Single Business Tax (SBT) Act. However, data indicate that in 2000 no research and development money was spent in Michigan by firms in the forestry sector--suggesting the bill would have no impact on revenues.

Senate Bills 868 and 870 through 873

The bills would reduce State and local revenue and increase School Aid Fund expenditures by an unknown and likely negligible amount. To be eligible for the exemption, a firm would need to be a nonpublicly traded business with fewer than 25 employees, sales of less than \$1 million, and research and development expenditures of at least 15% of expenses, and not show a profit but still have an SBT liability. Based on current estimates, the total of all property taxes on property of such businesses is approximately \$500,000, without accounting for areas such as renaissance zones, enterprise zones, brownfield zones, etc. or special provisions such as those regarding obsolete property that has been rehabilitated. What share of this property is located in an enterprise or other zone is unknown, but if 10% of this property were located in areas

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affected by these bills or were property affected by these bills, the bills would reduce State and local revenue by less than \$50,000. Because School Aid Fund payments to school districts increase as locally raised revenue declines, a decline in locally raised revenue under the bill would increase payments, by less than \$50,000, from the School Aid Fund.

Senate Bill 875

The bill would reduce revenue to the City of Detroit by an unknown and likely negligible amount. To be eligible for the exemption, a firm would need to be a nonpublicly traded business with fewer than 25 employees, sales of less than \$1 million, and research and development expenditures of at least 15% of expenses, and not show a profit but still have an SBT liability. How many of such firms use utilities subject to the tax is unknown, as is the amount of tax levied on their utility consumption. Utility costs for such firms, regardless of location in the State, or the entity from which their utilities are purchased, are estimated to total less than \$2.9 million, implying less than \$29,400 in utility tax liability. If 20% of these firms' utility expenditures were subject to the tax, the bill would reduce revenues to the City of Detroit by less than \$6,000.

This estimate is preliminary and will be revised as new information becomes available.

Fiscal Analyst: David Zin

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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.