



Senate Fiscal Agency
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BILL



ANALYSIS

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Senate Bill 223 (as passed by the Senate)
Sponsor: Senator Ron Jelinek
Committee: Agriculture, Forestry and Tourism

Date Completed: 3-10-05

RATIONALE

Michigan is the second-most agriculturally diverse state in the nation, behind California, and agriculture is this State's second largest employer when food processing is included in that industry. Many food processing plants are located in rural areas in part because these areas traditionally have provided a supply of reliable, low-cost labor. Since the early 1980s, however, new manufacturing technologies and the globalization of markets have created a greater need for more highly skilled labor (Economic Research Service, Agriculture Information Bulletin Number 736-03). Reportedly, finding, training, and retaining highly skilled workers has proven difficult for many food processors, especially in rural areas.

A current State program, a partnership between the Federal and State government, provides a \$2,000 tax credit against the State's single business tax (SBT) to manufacturers who hire and train apprentices for certain positions. In 2003, amendments to the SBT Act increased the credit to \$4,000 for apprentices in the tool and die industry. While food processing positions currently qualify for the \$2,000 credit, it has been suggested that it also be raised to \$4,000, in order to encourage employers to add skilled workers to that industry.

CONTENT

The bill would amend the Single Business Tax Act to allow companies with particular North American Industry Classification System (NAICS) classifications (pertaining to food processing) to claim a credit of up to \$4,000 per apprentice trained by a company in a tax year. The bill would

apply to tax years beginning after December 31, 2004.

The Act allows a taxpayer to claim a refundable credit of up to \$2,000 against the tax for qualified expenses related to the training of an apprentice. The credit equals 50% of the salary and wages paid to the apprentice, 50% of fringe benefits and other payroll expenses paid for his or her benefit, and 100% of the costs of classroom instruction and related expenses for which the taxpayer is responsible under an apprenticeship agreement. Under the bill, the \$4,000 credit could be claimed for the same expenses, and the \$2,000 credit would continue to be available if the \$4,000 credit did not apply.

The Act defines "apprentice" as a State resident at least 16 years old but under 20 years old who has not obtained a high school diploma, is enrolled in high school or a general education development (G.E.D.) test preparation program (or is expecting to enroll within three months), and is trained by the taxpayer in a program that meets the following criteria:

- Is registered with the Bureau of Apprenticeship and Training of the U.S. Department of Labor.
- Includes a minimum of at least 4,000 hours.
- Is provided pursuant to an agreement signed by the taxpayer and the apprentice.
- Is filed with the local workforce development board (a board established by a local unit's chief elected official pursuant to the Federal Job Training Partnership Act). (The bill would refer instead to the Workforce Investment Act.)

To claim the \$4,000 credit, a company would have to have one of the following NAICS classifications:

Classification Number	Industry and Product Description
311111	Dog and Cat Food
311119	Other Animal Food Products
311211	Flour and Other Grain Mill Products
311212	Rice
311213	Malt Beverages
311221	Wet Corn Products
311222	Soybean Products
311223	Other Oilseed Products
311225	Refined or Blended Fats and Oils
311230	Breakfast Cereals and Related Products
311313	Beet Sugar
311320	Chocolate and Confectionary Products Made from Cacao Beans
311330	Confectionary Products Made from Purchased Chocolate
311340	Nonchocolate Confectionary Products
311411	Frozen Fruits and Vegetables
311412	Frozen Specialties
311421	Canned Fruits and Vegetables
311422	Specialty Canned Food Products
311423	Dried and Dehydrated Foods
311511	Fluid Milk
311512	Creamery Butter
311513	Cheese
311514	Dry, Condensed, and Evaporated Milk
311520	Ice Cream and Frozen Desserts
311611	Animal Slaughtering Products (Except Poultry)
311612	Meat Processed from Carcasses
311613	Rendering or Meat Byproducts
311615	Poultry
311711	Seafood Canning Products
311712	Fresh and Frozen Seafood
311813	Retail Bakery Products
311821	Cookies and Crackers
311822	Flour Mixes and Dough Made from Purchased Flour
311823	Pasta
311911	Roasted Nuts or Seeds and Peanut Butter
311919	Other Snack Foods
311920	Coffee and Tea Products
311930	Flavoring Syrups and Concentrate Products
311941	Mayonnaise, Dressings, and Other Prepared Sauces
311942	Spices and Extracts
311999	All other Miscellaneous Food Preparations

MCL 208.38e

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

Food processing is an important component of Michigan's economy. This industry adds value to produce, grains, and beans not just because the final canned, jarred, or frozen product may be sold for many times the price of the raw material, but also because the processing itself provides jobs to workers and boosts local economies. The food processing industry, however, is experiencing a shortage of skilled workers. During Senate committee testimony, a representative from Michigan State University's cooperative extension service in Oceana County testified, for example, about a great need for food safety experts trained in microbiology; for workers skilled in robotics to operate machinery in a chocolate-covered cherry factory; and for laborers trained in hydroponics (the cultivation of plants in a nutritive solution, rather than soil).

Attracting and retaining skilled laborers is especially important to the economy of rural counties, which have been harder hit by unemployment than have metropolitan counties. According to the *Muskegon Chronicle* (2-15-05), the State's unemployment rate is 7.3%, but the average unemployment rate in Michigan's rural counties (defined as those with less than 70,000 people) is 8.1%. It can be difficult to attract workers to rural counties because, according to the Economic Research Service, a division of the U.S. Department of Agriculture, rural workers earn an average of 20% less than those in urban areas. Further, rural areas provide limited opportunities for workers with advanced education and skills.

By creating a \$4,000 SBT credit for apprenticeships in the food processing industry, the bill could benefit both rural workers, who could see more opportunities to be trained for higher-paying jobs, and small manufacturers, who often cannot afford to pay to train their own workers and, as a result, lose them to larger companies.

Opposing Argument

The State is currently facing a large deficit and cannot afford to lose revenue, even from a small tax credit such as this. Further, the State's single business tax needs to be overhauled; tweaking or changing it in a piecemeal fashion would only hamper efforts to revamp it later.

Response: The bill proposes a very modest tax credit and would pay for itself in the long run, as it would help meet the personnel needs of food processors, who could encourage highly skilled workers to remain in the State instead of seeking employment elsewhere.

Legislative Analyst: Claire Layman

FISCAL IMPACT

Given that food manufacturers are currently eligible for the apprenticeship tax credit of up to \$2,000 per qualified apprentice, and that the latest data available reveal that all businesses are claiming only about \$100,000 in apprenticeship tax credits, it is estimated that this bill would reduce single business tax revenue by less than \$100,000. This loss in revenue would affect the General Fund/General Purpose budget. The bill would have no direct impact on local governments.

Fiscal Analyst: Jay Wortley

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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.