

TAX INCENTIVES UPDATE

Renaissance Zones Extended and Expanded

Renaissance Zones ("RZ") are one of Michigan's most significant economic development tools. A business located in a RZ is exempt from most state and local taxes, including the Single Business Tax ("SBT"), city corporate income tax and most property tax millages.

Recently, the RZ Act was amended to extend both the duration of these tax incentives and significantly expand the geographical area in which these economic incentives can be achieved. The amendment providing for these new geographical areas is a significant departure from the original provision which designated as RZ only the most economically distressed areas in the state.

The potential economic advantages of being located in an RZ should not be overlooked by any business contemplating or doing business in Michigan.

Other Important Incentives for Business Relocations and Expansions

Businesses seeking to locate or expand in Michigan should also consider other important economic incentive programs. Many expansions or relocations qualify for significant property tax abatements and some are eligible for 100% exemption on personal property tax. Each local government's policy and eligibility regarding property tax incentives varies, so it is vital to plan ahead and understand your target community's stance on incentives before you commit to a project.

The MEGA credit, which is administered by the Michigan Economic Development Corporation ("MEDC"), provides a credit of up to 3.9% of a company's new payroll for up to twenty years. The MEGA credit, including its amount and duration, is completely discretionary from the state's perspective. Negotiating the best deal possible often requires not only knowing what type of deal other states may offer, but also what type of credit similarly situated businesses have received in Michigan.

Key Tax Incentives Likely to be Preserved with New Michigan Business Tax

As the expiration date for the SBT has been moved up to December 31, 2007, many developers and other businesses that use Brownfield, MEGA or other SBT credits are concerned that those programs may not be continued under a substitute tax. While nothing is certain at this point, taxpayers can take some comfort in the fact that, under the leading proposals, all key incentive programs would continue and allow existing credit holders to apply their remaining SBT credits against their liability under the new tax.

Sandy Ring to Join Honigman's Incentives Practice

Sandy Ring, the Chief Operating/Business Development Officer and Executive Vice President of the MEDC since being appointed by Governor Granholm in 2004, joined Honigman on January 2, 2007. Sandy is a member of Honigman's Investment Incentives and Tax Savings Group, which assists clients in identifying, obtaining and negotiating government incentives.

For more explanation about tax and other economic incentive programs and for a complimentary copy of Honigman's booklet entitled, "A Road Map To Business Success In Michigan," please contact Mark Hilpert at 517.377.0727 or mhilpert@honigman.com or Sandy Ring at 517.377.0733 or sring@honigman.com.

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