

Tax Incentives in Michigan

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Primary Policy Drivers for Michigan Tax Incentives

- Two somewhat distinct policy goals:
Attracting Quality Jobs and Redeveloping Distressed areas.
- Emphasis on business retention and less on attracting businesses from outside Michigan.
 - Closed foreign trade offices.
 - Programs are geared toward keeping manufacturing base in Michigan.

MEGA SBT Credit (MCL 207.801, 208.37c and 208.37d)

- 2 different types of credit: business activity, and employment.
- MEGA has not recently awarded any business activity credits.
- Amount and duration of credits are totally discretionary.
- Duration: 20 years, but usually shorter.
- Local participation is required (usually in the form of property tax abatement).

MEGA SBT Credit (MCL 207.801, 208.37c and 208.37d) (continued)

- “But for” clause: Business must prove that investment would not occur if not for the credit.
- Credit can be based on new or “retained” jobs.
- General new jobs threshold is 100 new jobs for businesses seeking to locate in MI and 50 for MI businesses seeking to expand.

MEGA SBT Credit (MCL 207.801, 208.37c and 208.37d) (continued)

- Eligible businesses include manufacturing, R&D, mining, wholesale and trade, office operations. Retail and Casino operations do not qualify.
- More lenient rules for rural, high tech and distressed businesses

Industrial Property Tax Abatement (MCL 207.554)

- Can be used anywhere in MI, but Local Government and STC must approve.
- 50% abatement for new industrial property or frozen tax base for rehabilitation.
- Rehabilitation abatement is usually better for taxpayer.

Industrial Property Tax Abatement (MCL 207.554) (continued)

- Act is very deadline sensitive: District must be created before construction commences and application must be filed within 6 months of construction.
- Duration: up to 12 years after completion
- New requirements regarding agreements: watch out for claw-backs and claw-forwards!

Renaissance Zones

(MCL 125.2681, 208.39b, 211.7ff)

- There are over 150 virtual tax free zones spread across 38 counties in the state.
- Most zones are in effect for 15 years.
- Businesses located within a zone are exempt from SBT (for activity within the zone), most property taxes and utility tax.
- Property taxes for debt and sales taxes are not exempt (hence it is usually still beneficial to get a property tax abatement if possible)

Renaissance Zones

(MCL 125.2681, 208.39b, 211.7ff)_(continued)

- All types of businesses qualify for exemption.
- Some cities have tried to disallow certain exemptions, but the statute does not require local approval for exemption. Apply before the end of the year for the next year.
- New amendments provide for expansion of boundaries and extension of sunset for the zones. These changes allow businesses to influence where new zones will be created.

Personal Property Tax Exemption (MCL 211.9f)

- Provides certain local units (“Core Communities”) the option of exempting all new personal property of eligible businesses (essentially any business other than retail or casinos).
- Must be within certain zones, but these zones are very easy for local units to create.
- No limit to how long the exemption can last. (some units have awarded 50 year exemptions)
- New personal property also includes used property brought from other states or property that had been exempt in MI.

SBT Credit for Industrial Personal Property Taxes

- PA 289 – PA 292 of 2005.
- Refundable 15% SBT credit for property taxes paid on industrial personal property.
- Available for tax years 2006 and 2007.
- Example: Company A pays personal property taxes of \$100,000 on their industrial personal property in 2006. Company A is eligible for a refundable \$15,000 SBT credit in 2006.
- **TIP:** Make sure your property is classified properly.

Redevelopment Incentives: Brownfields

- MEGA may grant an SBT Credit for up to 10% of eligible investment on Brownfield site.
- The Credit is discretionary and the number of credits MEGA may approve each year is limited.
- Tax Increment Financing is available to reimburse cost of response activity (TIF may still be available if credit application is denied)
- Brownfield program expanded to apply to non-contaminated properties.

Redevelopment Incentives: Brownfields (continued)

- For “Core Communities”, brownfield designation can be used for blighted or “functionally obsolete” property as well.
- SBT credit may be assigned to shareholders, partners or other owners or tenants of the property.
- MEGA gives preference to projects that are in downtown areas or involve adaptive re-use of existing structures (especially historic). Retail is not favored.

Other Redevelopment Programs

- Obsolete Property Rehabilitation Act (OPRA) (MCL 125.2782) -Allows “Core Communities” to offer property tax abatement for rehabilitating commercial property.
- Federal and State Historic Preservation Credits (MCL 208.39c) When used together, these credits provide a credit of equal to 25% of eligible rehabilitation expenditures on qualified historic buildings.

Other Redevelopment Programs

(continued)

- Federal New Markets Credits: U.S. Treasury allocates credits to a Community Development Entity (CDE) Investors in the CDE receive federal tax credit of up to 39% of investment over 7 years. CDE invests in low income areas.
- Neighborhood Enterprise Zones (MCL 207.772) Property Tax Abatement for new or rehabilitated residential property. This program can be used in mixed-use developments.

Uncertainties: Single Business Tax Sunset and Cuno

- Single Business Tax is scheduled to expire at the end of 2007.
 - Current statute protects Brownfield and historic credit holders by allowing a refundable credit be taken in last SBT tax year (MEGA?)
 - All prominent proposals for replacement tax protect existing credit holders and extend the programs.
- Adverse Cuno ruling (or Dell, etc.) may upset MEGA program.
 - Michigan has a state constitutional prohibition against direct payments to private companies.

Programs for Targeted Industries

- Tool and Die Recovery Zones (MCL 125.2688d) Renaissance zone treatment for tool and die consortiums.
- Alternative Energy Initiative (MCL 208.39e and 211.9i) Property tax exemption for businesses that purchase alternative energy systems (e.g. fuel cell, wind energy, solar-thermal), alternative energy vehicles, equipment used in R&D or manufacturing of alternative energy technology. SBT credits for businesses engaged solely in the R&D or manufacturing of Alternative energy technology.

Programs for Targeted Industries

(continued)

- 21st Century Jobs Fund: Loans and equity contributions to start up companies for R&D and commercialization.
 - Focus is on Alternative Energy, Advanced Automotive manufacturing, Life Sciences and Homeland Security.