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BILL ANALYSIS

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House Bill 5256 (as passed by the House)
Sponsor: Representative Andy Meisner
House Committee: Tax Policy

CONTENT

The bill would amend the Natural Resources and Environmental Protection Act to prohibit new tax exemption certificates from being issued after September 30, 2007. In addition, the bill would terminate exemptions granted under existing certificates effective September 30, 2007.

Under the Act, facilities designed and operated primarily for the control, capture, and removal of industrial waste from water that meet the requirements of Part 31 (Water Resources Protection) of the Act, are to be granted a certificate. The Act also provides for certificates to be granted to facilities designed and operated primarily for the control, capture, and removal of pollutants from the air, that meet the requirements of Part 55 (Air Pollution Control). A certificate exempts the facility from real and personal property taxes under the General Property Tax Act, and purchases of personal property installed as part of the facility are exempt from sales tax under the General Sales Tax Act and use tax under Use Tax Act.

MCL 324.3703 et al.

FISCAL IMPACT

The Michigan Department of Treasury estimates that in fiscal year (FY) 2007-08, the sales and use tax exemptions under the certificates will total $39.0 million, while the property tax exemptions will reduce State and local property tax liabilities by approximately $150.0 million. Approximately $17.3 million of the property tax exemption represents an exemption from the State education tax.

The property tax exemptions afforded by the certificates, however, interact with a number of new property tax provisions adopted in conjunction with the Michigan Business Tax (MBT) Act. Under the new provisions, personal property will be exempt from the State education tax. As a result, the bill would have a minimal impact on the State education tax. Assuming that 10% of the property is not personal property, the bill would increase State education tax revenue by $1.7 million.

Additionally, the business tax changes exempt industrial personal property from the 18-mill levy for school operating purposes in tax years 2008 and later. As a result, eliminating the exemption would not affect local school operating property tax revenue either.

The MBT Act does provide for a new 35% tax credit against personal property taxes. Thus, while repealing the exemption would increase property taxes, other than the State education tax and those levied for school operating purposes, the bill also would increase credits under the MBT Act. As a result, the bill would increase local property taxes by approximately $80.8 million but reduce State General Fund revenue due to the credits. On a full-year basis, the credits would reduce General Fund revenue by approximately $25.4 million. However, due to the timing of property tax bills and MBT payments, only about $7.2 million of that impact would occur in FY 2007-08.

Assuming the bill would be effective October 1, 2007, eliminating the sales and use tax exemptions would be expected to increase State revenue by approximately $39.0 million per year, a portion of which would be directed to the School Aid Fund. The exact impact on the School Aid Fund and the General Fund would depend upon how much of the $39.0 million was received under the sales tax and use tax provisions, respectively.

Date Completed: 9-27-07 Fiscal Analyst: David Zin