

Michigan Jobs and Investment Act



Jay B. Rising
State Treasurer
Michigan Department of Treasury
Senate Finance Committee
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Tax Restructuring for the 21st Century

The Michigan Jobs and Investment Act will:

- Encourage businesses to invest and create jobs in Michigan
- Foster small business growth
- Attract the technology jobs of the future
- Provide broad based tax relief and promote business tax fairness
- Maintain fiscal integrity

2

Problems with Current System

- High personal property tax burden discourages investment in Michigan
- Apportionment formula discourages location in Michigan
- Overall burden very uneven across sectors
- Manufacturing burden too high
- SBT too insensitive to changes in profits
- SBT repealed effective 2010

3

Michigan Jobs and Investment Act

4

Creates & Retains Jobs

- Encourages investment through **35% personal property tax credit** for manufacturing and R&D
- Removes incentives to create jobs outside Michigan by adopting **100 percent sales factor**
- Fosters emerging technologies and the new economy by providing **R&D credits**
- Balances business taxes by having **less reliance on taxing labor** and more on taxing profits by adding into SBT base additional 2 times profits

5

Apportionment Change Encourages Investment in Michigan

Company A - Before Investment

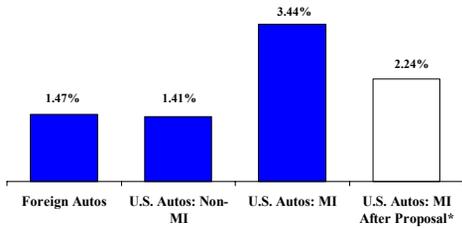
	Michigan	Total
Sales	\$5,000,000	\$100,000,000
Payroll	\$1,000,000	\$10,000,000
Property	\$1,000,000	\$10,000,000
Apportionment Factor (at 90, 5, 5)		5.5%
Apportionment Factor (at 100, 0, 0)		5.0%

Company A - After Investing in Michigan

	Michigan	Total
Sales	\$5,000,000	\$100,000,000
Payroll	\$2,000,000	\$11,000,000
Property	\$2,000,000	\$11,000,000
Apportionment Factor (at 90, 5, 5)		6.3%
Apportionment Factor (at 100, 0, 0)		5.0%

6

Blended Property Tax Rates on M&E for the Automotive Industry



Michigan's property tax rates are 238% of the blended rate that U.S. and foreign autos pay in other states. This creates a disadvantage for Michigan based companies and is a significant hurdle that Michigan has to overcome to attract new capital investment.

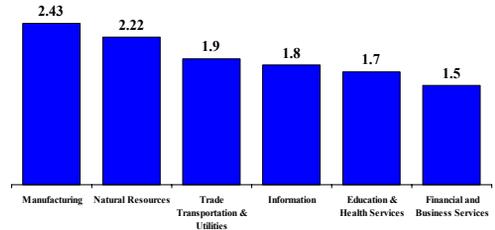
Tax rates on M&E are derived from the Minnesota Center for Public Research, 50 State Property Tax Comparison using an average of the largest city and a typical rural area in each state.

The ETRs are weighted based on 2003 production units for all U.S. assembly plants.

*Based on a 35% PPT Credit.

7

Manufacturing Has Highest Economic Multiplier



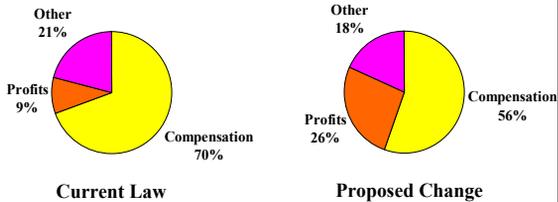
Note: Multiplier shows how much intermediate and final output is generated by a dollar's worth of final demand for industry's product

Source: NAM Council of Manufacturing Associations quoting BEA statistics

8

Plan Cuts Tax on Payroll

Components of Tax Base



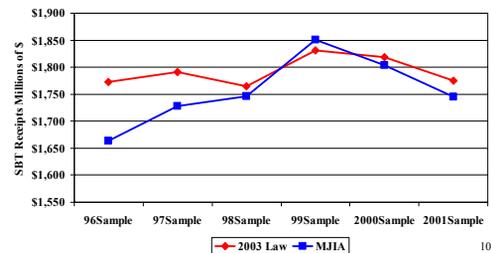
Note: Computed using tax return data for 1996-2001.

Source: Tax Analysis Division, Michigan Department of Treasury

9

Outcome Similar Using Different Years

SBT Receipts (millions of \$)



10

Attracts Jobs of the Future

- Cuts the alternative rate for small businesses - from 2 percent to 1.2 percent
- Creates an R&D credit - Taxpayers would receive a credit for 1.2% of compensation paid to employees engaged in research and development

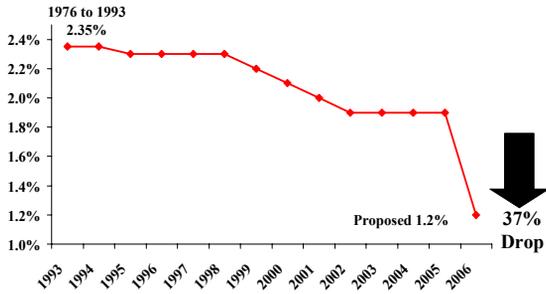
11

Provides Broad-Based Tax Relief

- Cuts standard SBT rate by 37%
- Cuts tax rate for small businesses by 40%
- Provides a tax cut to nearly 72,000 businesses
- 3 out of 4 taxpayers that have a liability will see a tax cut

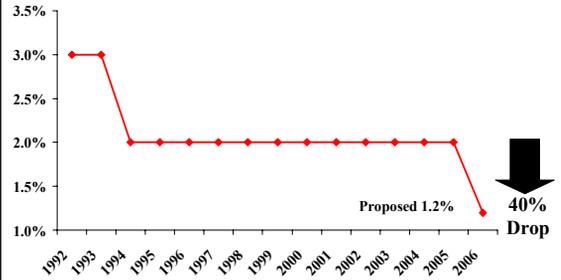
12

SBT Rate Falls 37 Percent



13

Small Business Rate Cut 40 Percent



14

Simplifies Business Tax Structure

- Eliminates Excess Compensation Reduction
- Eliminates Gross Receipts Reduction
- Eliminates Special Credit for unincorporated businesses
- Eliminates special credit for telephone property taxes paid
- Makes small business credit eligibility independent of business organization or out of state affiliation
- Broadens the Base and Cuts the Rate

15

Fosters Business Tax Fairness

- 35% personal property tax credit mitigates differing tax burdens across sectors
- Changes the taxation of insurers to a 2 percent premiums tax like those imposed by most other states
- Eliminates special property tax treatment for commercial rental property - treats changes in value like all other value changes are treated for assessment purposes (WPW fix)

16

Who Pays Michigan SBT Size of Taxpayer 2001-02

Michigan Tax Base	# of Firms	Tax Liability	% Total
Over \$100,000,000	99	\$375,202,714	20.1%
\$10,000,000-\$99,999,999	1,689	\$548,768,173	29.4%
\$1,000,000-\$9,999,999	19,029	\$653,353,742	35.0%
\$100,000-\$999,999	78,941	\$259,104,158	13.9%
Less Than \$100,000	61,344	\$28,659,710	1.5%
Total	161,102	\$1,865,088,497	100.0%

17

Who Pays Michigan SBT Size of Liability 2001-02

Liability Class	# of Firms	Tax Liability	% Total
Greater than \$1,000,000	152	\$446,453,993	23.9%
\$100,001-\$1,000,000	2,571	\$613,690,300	32.9%
\$10,001-\$100,000	20,657	\$592,981,814	31.8%
\$1-\$10,000	80,775	\$211,962,390	11.4%
\$0	56,947	\$0	0.0%
Total	161,102	\$1,865,088,497	100.0%
Michigan Only Firms	133,219	\$792,915,210	42.5%
Multi-State Firms	27,883	\$1,072,173,287	57.5%

18

Who Pays Michigan SBT Sector Breakdown 2001-02

Sector	Liability	% of Total Liability
Transportation Equipment	\$83,146,993	4.5%
Other Manufacturing	\$399,700,054	21.4%
Services	\$483,779,255	25.9%
Retail Trade	\$285,190,084	15.3%
FIRE	\$129,988,352	7.0%
Other	\$483,283,759	25.9%
All Firms	\$1,865,088,497	100.0%

Note: Other category includes construction, wholesale trade, Agriculture, Mining, and Forestry.

19

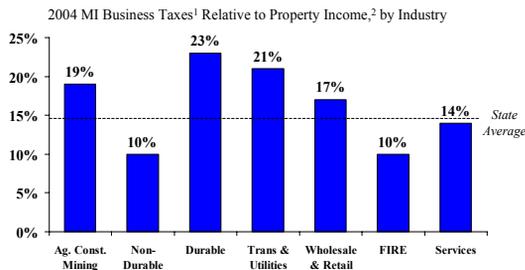
Who Pays Michigan SBT Type of Firm Breakdown 2001-02

Type of Firm	# of Firms	% of Total Tax Liability	% Total
Individuals	15,904	\$31,128,014	1.7%
S Corporations	53,716	\$356,020,572	19.1%
Corporations	57,949	\$1,224,303,688	65.6%
Other *	33,533	\$253,636,223	13.6%
All Firms	161,102	\$1,865,088,497	100%

*Includes fiduciary companies, professional corporations, partnerships, and limited liability companies.

20

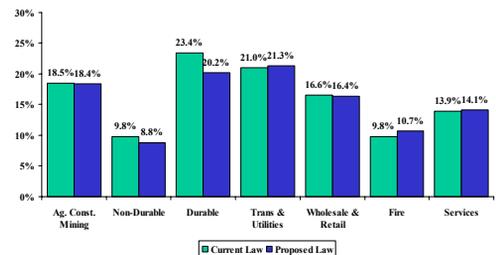
The Case for Business Tax Reform Disproportionate Taxes on Durable Manufacturing



¹ Effective Tax Rates were calculated by dividing 2004 business taxes by average property income for the period 1999-2004.
² "Property Income" includes capital income plus the income of unincorporated businesses and rental income received by persons.
³ "Capital Income" is the component of gross state product (GSP) that includes interest and distributed and undistributed corporate profits.

21

Michigan Effective Total State and Local Tax Rates on Property Income



Note: Effective tax rates were calculated by dividing 2004 tax data by average property income for 2004
Data derived from Ernst and Young Calculations.

22

Personal Property Tax

- 36 States including Michigan tax personal property
- Michigan exempts inventory (11 states tax)
- 15 states exempt manufacturing machinery and equipment (Michigan does not)
- Personal property 9.4 percent of property tax base
- Personal property taxes totaled \$1.59 billion in 2002

23

Personal Property Value by County

- The State's five largest counties account for 55.3% of total personal property taxable value
- There are 9 counties where personal property taxable value accounts for more than 15% of total county taxable value
- These 9 counties are small and account for less than 3 percent of total Michigan taxable value
- In 2004, there was 1 county where personal property accounted for more than 20 percent of its taxable value - this is down from 3 counties in 2002 and 5 counties in 2001

24

Taxation of Insurers

- Nearly all states impose a tax on insurance premiums.
- The median tax rate for the 50 states is 2% compared to Michigan's tax of 1.07 % before the application of several credits.
- Michigan's tax is the 4th lowest of the 50 states.
- 35 states have a premiums tax of 2% or higher.

25

Michigan Insurance Tax 4th Lowest in U. S.

- | | |
|--------------|--------|
| 1. Louisiana | \$2.90 |
| 2. Kentucky | \$2.81 |
| 3. Delaware | \$2.71 |
| 4. Nevada | \$2.56 |

U. S. Median	\$1.56
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47. Michigan \$0.76

Tax per \$1,000 of personal income, FY 2003 State Tax Collections, U. S. Bureau of the Census ²⁶

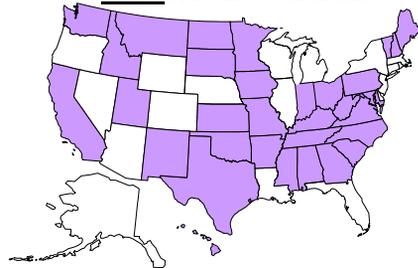
Insurance Companies Are Exempt From

- Use tax on out-of-state purchases
- Use tax on telephone calls
- Use tax on leased equipment

Other businesses pay these taxes!

27

Higher Tax ≠ Higher Rates 32 States with a Higher Premiums Tax have Lower Auto Rates than MI



Sources: RIA Checkpoint, OFIS - State of Michigan, Insurance Information Institute ²⁸

Insurance Tax Share of Corporate Taxes Still Low After MJIA

Insurance Taxes as a Percent of Total Corporate and Insurance Taxes

- | | |
|---------------|-------|
| 1. Washington | 61.0% |
| 2. Hawaii | 58.6% |
| 3. Nevada | 46.5% |
| 4. Wyoming | 45.2% |

U. S. Average	22.6%
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38. Michigan (MJIA) 19.9%

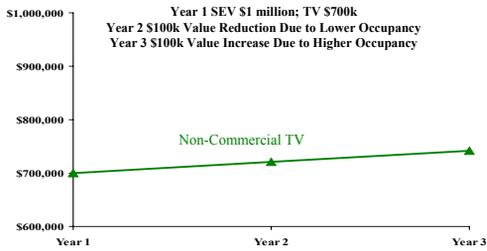
Insurance and total corporate taxes, FY 2003 State Tax Collections, U. S. Bureau of the Census ²⁹

WPW

- Proposal A made changes to the definition of “additions” and “losses” for commercial property
- Additions include value increase attributable to increase in occupancy
- Losses include value decrease attributable to loss in occupancy
- WPW allows decreases in occupancy to lower property values, but caps additions based on taxable value cap

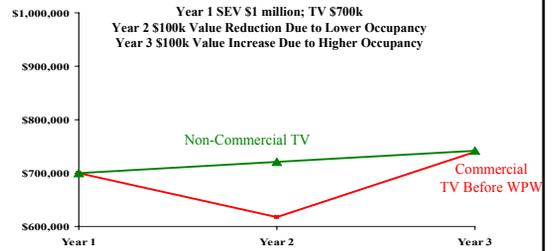
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Changes in Taxable Value Before and After WPW Decision



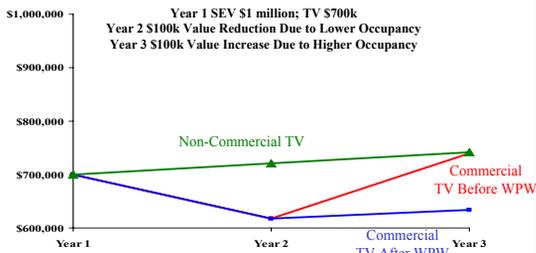
31

Changes in Taxable Value Before and After WPW Decision



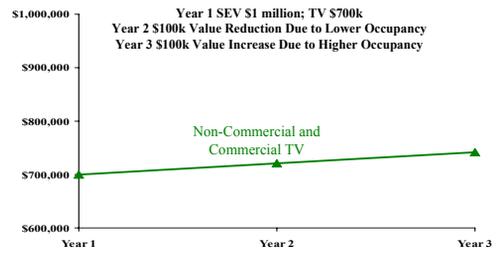
32

Changes in Taxable Value Before and After WPW Decision



33

Changes in Taxable Value After WPW Fix



34

Maintain Fiscal Integrity

- Prevents a 25% reduction in General Fund revenues in 2010
- Protects local government and school revenues
- Revenue neutral

35

MJIA Components

	REVENUE (\$ millions)
Cut the Rate to 1.2 % for All SBT Taxpayers, including the alternative tax	(29)
Create a 35% Manufacturing Personal Property Tax Credit	(272)
Create a 35% R & D Personal Property Tax Credit	(15)
Create an R & D Compensation Credit	(20)
Change to 100% Sales Factor Apportionment	(40)
Adjustments to the Tax Base:	801
<ul style="list-style-type: none"> • Increase the weighting of profit in the SBT tax base • Eliminate the excess compensation reduction • Eliminate the gross receipts reduction • Eliminate special credit for unincorporated businesses • Eliminate special credit for telephone property taxes paid • Treat compensation of employees leased from a professional employer organization as compensation of the client business • Make small business credit eligibility independent of business organization or out of state affiliation 	
Change the Taxation of Insurers to a 2% Premiums Tax	255
Eliminate Special Property Tax Treatment for Commercial Rental Property.	30
TOTAL	-0-

36

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