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House Panel Discusses MEGA; Whitmer Concerned About 'Big Employers'

Ending the Michigan Economic Growth Authority tax credits would save the state \$500 million per year, a House panel was told Wednesday as lawmakers weigh an attempt to end the program.

Ben Gielczyk, associate director of the House Fiscal Agency, provided a presentation on MEGA credits and their history to the [House Oversight Corporate Subsidies and State Investments Subcommittee](#) .

The presentation comes as the House prepares to consider legislation that would hike the Michigan Business Tax from the current rate of 4.95 percent to 30 percent, with [HB 4186](#) . The tax increase would likely deter companies from filing under the Michigan Business Tax, moving them to the Corporate Income Tax, and thereby effectively eliminate MEGA credits.

At a separate event on Wednesday, [Governor Gretchen Whitmer](#) said she thought a big policy change like eliminating MEGA credits should be robustly debated.

"A lot of our big companies, big employers, have made long-term decisions based on long-term commitments from the state, and so I think it would be a mistake to upend that," she said. "With that being said, I think there's probably always ways that we can make sure that our policies are smarter and achieve our goals, and they're always ripe for review. But I don't want to upend big employers."

The "big employers" Whitmer likely has in mind are the Detroit Three automakers, who obtained significant MEGA credits to help keep them afloat during the Great Recession of 2008-09. When the state created the Corporate Income Tax starting with the 2012 tax year, nearly all

employers moved away from the MBT – except those whose MEGA credits were so large it made more financial sense to stay there.

MEGA credits are refundable, performance-based tax credits that were awarded for up to 20 years. The program was originally created in 1995 and was discontinued in 2011.

Gielczyk clarified that the refundable nature of the credits only applies in certain circumstances.

"It just means that if the credit award is greater than the tax owed by the business, the state will pay the cash difference to the company as a refund, thereby lowering the net business tax revenues," he said.

Additionally, as a performance-based credit, the company must meet agreed upon conditions around investment and job growth to qualify for the credit, and the value of the credit corresponds with the job and investment levels produced.

In early 2010, the state had problems with the unpredictability of MEGA credit redemption and their estimated and actual value amendments that increased or decreased, and changes were made. Ultimately, though, the program ended and was replaced with the current Corporate Income Tax.

Although the credit was discontinued, along with the Michigan Business Tax, companies with existing credits can continue to file them.

"MEGA retention credits clearly have the largest impact on General Fund revenues, as they are expected to continue through fiscal year 2032," he said.

Industries with MEGA credits include advanced manufacturing, automotive manufacturing, research and development and information technology.

To receive the credit, the company applies for an award and an agreement reached on specific terms of the incentive. Then, the Michigan [Strategic Fund Board](#) approved the award for the company. The company pursues investments in job creation and retention for each year of the award and then applies for a credit certification showing compliance with the terms of their agreement.

Every year during the term of the agreement, the Michigan Economic Development Corporation staff verify compliance with the terms. The company then submits the tax return with the associated certificate and

the Department of Treasury reviews that tax return and issues credit refunds. Any changes to the agreement requested by the company throughout the term must be approved by the Michigan Strategic Fund Board.

The total MEGA tax credit liability is about \$9.4 billion, Gielczyk said, and about \$500 million in revenue expected each fiscal year until 2032.

The \$500 million from MEGA credits have been part of the discussion for House Republicans' long-term road funding plan, but Republicans said that those dollars are not part of the money going toward roads. Rather, the money from the MEGA credits would be used to backfill other budget items affected by reallocating money from sales tax. By the time MEGA credits expire, the MEGA credit money may be unnecessary for backfilling other budget items.

"We have plenty of years to reevaluate before then," [Rep. Steve Carra](#) (R-Three Rivers) said.

Eliminating the MEGA credits before they are set to expire simply gives the state additional General Fund dollars, he said.

During the committee meeting, Carra asked if House Fiscal could calculate the difference between what the 10 companies are paying the state who are still paying the Michigan Business Tax versus what they would be paying under the Corporate Income Tax.

Gielczyk said he was unaware whether any credit value was given out in circumstances where a business failed to meet the performance metrics, but there have been amendments to the agreements.

– By Elena Durnbaugh

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