

# Tax Incentives

## Lakeshore Economic Development Tools:

The following is a list of tools that our staff has extensive knowledge in working with. Not all programs are appropriate for all situations. Our Staff will assist you in finding the program that will have the largest impact for your company depending on your particular circumstances.

### Michigan Economic Growth Authority (MEGA)

The Michigan Economic Growth Authority (MEGA) was created to promote high-quality economic growth and job creation. Expansions or new locations in Michigan may be eligible for Single Business Tax (SBT) credits through MEGA. In addition, companies engaged in research and development, manufacturers, wholesale traders, large office operations, life sciences or high-tech businesses, may also be eligible to receive a tax credit. Retail facilities are not eligible. This is a refundable tax credit based on the incremental SBT liability attributable to an expansion or new location project and the amount of personal income tax attributable to new jobs being created. Each credit may be awarded for up to 20 years and 100% of the amount attributed to the project. The state of Michigan offers two kinds of MEGA incentives based on the nature of the applying business.

For a **regular** MEGA, an in-state business that is expanding must create at least **50 new full-time jobs** at the project's facility. An out-of-state business locating in Michigan must create at least 100 new full-time jobs (excluding contract employees). For a **high-tech** MEGA, the expansion or location in Michigan must create at **least 5 new full-time jobs within the first year, and a total of 25 new full-time jobs within 5 years**, and 25% of its operating expenses must be used for research and development for 3 years. The basic terms for both types of applications include the following:

- The new jobs must be in addition to any jobs existing at the company during the year preceding the application for a credit. Those jobs must be maintained for the life of the credit. Prior existing jobs must also be maintained for the life of the credit.
- The average wage of the new jobs must equal or exceed 150% of the federal minimum wage; 400% for high-tech jobs.
- The tax credits must respond specifically to the advantages the company would gain by expanding outside of Michigan.
- The tax credits must be necessary for the expansion/location to occur in Michigan. A local organization must be financially and/or economically committed to the project.
- The project cannot be announced or work started before the MEGA award.

### Criteria for awarding MEGA tax credits:

Number of new jobs created and average wage of new jobs being created; total capital investment in the business; Cost disparity between expanding or locating in Michigan vs. out of Michigan; Impact of the project on Michigan's economy; Assistance provided by the local community

MEGA applications are awarded at the discretion of the CEO of the Michigan Economic Development Corporation (MEDC) and the MEGA board.

## **Abatements on Property Taxes (PA 198, 1974)**

Property tax incentives are available to eligible businesses to renovate or expand existing manufacturing plants, or to build new plants. The law also allows local communities to use this incentive for high-tech firms or research and development centers that provide high-salaried jobs. The abatements can reduce property taxes, real and personal, (excluding land) for up to 12 years. For an obsolete plant or machinery that is being replaced or restored, the company may be eligible for a 100% exemption from property tax on the value of the improvement. For a new plant, PA 198 allows local units of government to reduce the local millage by 50%, and the state to abate the 6-mill statewide education tax. Terms and conditions vary in each community.

## **Personal Property Tax Abatement (PA 328, 1998)**

Michigan Public Act 328 allows certain communities, of which Holland is officially designated, to abate all new personal property taxes in certain geographic areas in order to stimulate economic development. Abatements include all millage, state and local. The act allows all new personal properties installed by an eligible business after local approval to be 100% exempt from personal property taxes for a specified period determined by the City. After receiving a resolution from the Holland City Council, the Michigan State Tax Commission takes final action on this request for abatement. The City has criteria that must be met in order to qualify for this abatement.

## **Brownfield Redevelopment**

These incentives are available to sites having environment contamination above State thresholds or buildings that are determined to be functionally obsolete.

### **A. Single Business Tax (SBT) Credit.**

By inclusion within the City's Brownfield Plan, a project becomes eligible for a Single Business Tax Credit; that is, a financial credit against the single business tax that a business may pay. This can be a significant financial incentive for developers and investors of eligible property. Upon application submitted to the State, this Act provides such taxpayers a credit against their SBT liability of up to ten (10) percent of eligible investment costs that the taxpayer has incurred to redevelop or expand the eligible property, with a \$30 million limit on the total credits that any taxpayer can claim. One SBT credit is allowed per project and will be issued at the completion of the project.

### **B. Tax Increment Financing (TIF).**

The City will consider the use of Tax Increment Financing to capture increases in property tax revenues on eligible property to pay or assist in paying costs of eligible activities through a reimbursement plan agreed to for each project. The Brownfield Authority TIF may capture available property tax revenues from "non-school" taxing jurisdictions and, with State (MDEQ/MEDC) approval of a project work plan, "school" taxing jurisdictions. The TIF is used to reimburse the costs of eligible project activities that are included within the approved Brownfield Plan.

## **Community Development Block Grant Program (CDBG)**

A federally-funded program administered, in part, by the State of Michigan MEDC. For-profit businesses engaged in an economic base activity (e.g. manufacturing, point-of-destination tourism, headquarter operations, major multi-state distribution facility) can work with eligible communities and their respective agents to request grants to provide public infrastructure improvements. Public infrastructure includes items such as: public water or sanitary sewer lines and related facilities, streets, bridges and public utilities.

## **Historic Preservation Tax Credits**

### **A. Federal Tax Credit.**

A twenty (20) percent federal income tax credit is available for depreciable historic resources rehabilitated for commercial, industrial, agricultural, or rental residential purposes. To qualify for the credit, the historic resource must be listed in the National Register of Historic Places either individually or as part of a registered historic district. The National Park Service, the Internal Revenue Service, and the State Historic Preservation Office administer the federal tax credit program.

### **B. Michigan Historic Preservation Tax Credit.**

A state income tax credit of up to twenty-five (25) percent is available for the qualified rehabilitation of certified historic commercial and residential properties. The State Historic Preservation Office administers the program in partnership with the Michigan Department of Treasury.

## **Economic Development Job Training (EDJT) Grants**

EDJT is a premier feature of Michigan's economic development incentive package for the training or retraining of workers. Under this program, \$30 million is available each year for businesses creating new jobs or upgrading the skills of existing employees. Grants are awarded by the Michigan Economic Development Corporation through a competitive application process and average \$1,000 per new employee and \$500 per existing employee. A 25% match from the employer is required. Grant funds may be used to support both standard and customized training programs delivered by a number of area training providers. Grants are channeled through and administered by local schools and community colleges, which often also provide the training expertise.

## **Industrial Development Revenue Bonds (IDRBs)**

Industrial Development Revenue Bonds (IDRBs) may be used as a low-rate financing tool for manufacturers, solid waste/co-generation companies, and certain private, nonprofit corporations. Projects may not exceed \$10 million in financing within a six-year window. Because the interest paid to the bond buyer is exempt from federal taxes (and state taxes in certain cases), tax-exempt IDRB financing reduces the cost of borrowing to approximately 70% to 80% of the prime rate for eligible capital expenditures of credit-worthy companies. Use of the bond proceeds is limited to acquisition of land, machinery and equipment, and the construction, renovation or acquisition of buildings.

## **Taxable Revenue Bonds (TRBs)**

Taxable Revenue Bonds (TRBs) can be issued by the Michigan Strategic Fund or by local economic development corporations. These bonds are tax-exempt at the state and local level

if purchased by Michigan taxpayers. These types of bonds can provide companies with potentially longer-term financing (perhaps 10 to 20 years) and are often at a fixed rate and lower cost than conventional financing. Taxable Revenue Bonds are not restricted by the U.S. Internal Revenue Service and can be used to finance projects of more than \$10 million. These bonds can be used as working capital and to finance commercial, pollution control, agricultural, and recreational projects.

### **Capital Access Program (CAP)**

The Capital Access Program (CAP) is a flexible, easy-to-access program designed to assist banks in making business loans that are somewhat riskier than conventional loans. It is designed to use a small amount of public resources to generate a large amount of private financing, thus providing access to bank financing for many Michigan businesses that might otherwise not be able to obtain it. A loan under this program is likely to be more expensive than a conventional loan. It utilizes a special loss reserve to help banks recover losses incurred from a portfolio of loans made under the program. Similar to a loan-loss reserve fund, the bank, company and the Michigan Strategic Fund place a small percentage of the loan into a reserve that makes it possible for the company to finance fixed assets and working capital. Program eligibility is very broad based and, with few exceptions, encompasses any business located in Michigan that satisfies the bank's criteria. This program cannot be used to finance the construction, renovation or purchase of residential housing or the refinancing of existing debt.

### **Small Business Administration (SBA) 504 Program**

For qualified small businesses, the Small Business Administration (SBA) 504 program can provide long-term financing of real estate, building, machinery or equipment purchases. Projects are financed through a unique public/private partnership that involves private lenders financing 50% of the project costs, a Michigan Certified Development Corp. (an agency of the SBA) covering up to 40%, and borrowers investing a minimum of 10%. Projects in the \$300,000 to \$2 million range are preferred. However, in certain instances, it may be possible to finance larger or smaller projects. Generally, the maximum dollar amount a Michigan Certified Development Corp. may contribute toward any single project or borrower is \$750,000, however, this may be increased to \$1.3 million for some projects. The SBA requires one new job per \$35,000 of debenture, but this requirement may be waived. The borrower's bank maintains a first-lien position on the collateral and the SBA takes a secondary collateral position.

### **Small Business Administration (SBA) 7(a) Program**

The 7(a) Loan Guaranty is one of the Small Business Administration's primary lending programs. It provides loans to small businesses unable to secure financing on reasonable terms through normal lending channels. Private-sector lenders work in partnership with the SBA, which guarantees a portion – up to \$1 million – of any single loan. One of the primary advantages of this program is that it allows long-term financing of permanent working capital, as well as real estate, building or equipment purchases.

### **Venture Capital**

Venture capital is an alternate source of funding for higher-risk businesses that exhibit extraordinary potential for growth. To support the development of life science, high-tech and advanced manufacturing ventures, the state of Michigan has acted aggressively to triple its available venture capital resources, increasing the total amount of venture capital available to \$2.5 billion. The Michigan Economic Development Corporation has developed a comprehensive directory of Michigan resources involved with venture funding, including more

detailed profiles of venture funds and their interests. For more detailed information, please visit the following website: [www.michigan.org](http://www.michigan.org)

### **Michigan Angels Network**

To address the needs of high-tech start-ups, the state of Michigan has created the Michigan Angels Network to bring together investors with start-ups in life sciences, advanced manufacturing and information technology. Lakeshore Advantage can assist in connecting you to appropriate financing through these and other programs.