

Renaissance Zone Credit

Taxpayers are allowed a credit for locating and conducting business activity in a renaissance zone. Taxpayers can take a credit against their single business tax for locating and conducting business activity in a renaissance zone for the tax year to the extent and for the duration of renaissance zone status (up to 15 years or, in certain circumstances, until 2017). (MCL 208.39b(1)) The credit equals the tax liability attributable to business activity conducted there in the tax year. (MCL 208.39b(1))

For a business that first locates and begins conducting business activity within a renaissance zone, the credit equals the lesser of:

- (1) the tax liability attributable to business activity conducted within a renaissance zone in a tax year; or
- (2) 10% of the adjusted services performed in a designated renaissance zone. (MCL 208.39b(1)(a))

Effective for tax years starting on and after January 1, 2003, for a business that is located and conducting business activity within a renaissance zone before December 1, 2002 or a business that before December 1, 2002 has entered into a purchase agreement or lease agreement for real or personal property to be used for business activity within a renaissance zone, the credit is equal to:

the greater of

- (1) the amount as calculated above for a new business; or
- (2) the lesser of
 - (a) the tax liability attributable to business activity conducted within a renaissance zone in a tax year, or
 - (b) the credit allowed for the tax year starting in 2002 plus 2% of the increase in payroll and depreciation expenses for the tax year over those amounts in the tax year starting in 2002.

(MCL 208.39b(1)(b))

“Adjusted services performed in a designated renaissance zone” means either:

- (1) the sum of the taxpayer's payroll for services performed in a designated renaissance zone plus depreciation expense for the tax year for real property located in the zone;
- (2) for a partnership, LLC, S corporation, or individual, the amount determined under (1) plus the product of the following as related to the taxpayer if greater than zero: (a) business income, (b) the apportionment factor, and the renaissance zone business activity factor.

(MCL 208.39e(9)(a))

“New property” means property that has not been subject to, or exempt from, property taxes and has not been subject to, or exempt from, property taxes levied in another

state, except that receiving an exemption as inventory property does not disqualify property. (MCL 208.39e(9)(b))

“Payroll” means total salaries and wages before deducting any personal or dependency exemptions. (MCL 208.39e(9)(d))

“Renaissance zone business activity factor” means a fraction, the numerator of which is the ratio of the average value of the taxpayer's property located in a designated renaissance zone to the average value of the taxpayer's property in Michigan plus the ratio of the taxpayer's payroll for services performed in a designated renaissance zone to all of the taxpayer's payroll in Michigan, and the denominator of which is 2. (MCL 208.39e(9)(e))

The exemption is not allowed if the taxpayer is delinquent on December 31 of the prior tax year for one or more of the following taxes:

- the Single Business Tax;
- the personal income tax;
- the industrial facilities tax;
- the commercial redevelopment tax;
- the enterprise zone tax;
- the property tax on persons leasing or using tax-exempt property for profit making business activities;
- the technology park facilities tax;
- the commercial forest acreage tax;
- the neighborhood enterprise zone tax; and
- the city (Detroit) utility users tax. (MCL 125.2690(1))

The exemption is not allowed if the taxpayer is substantially delinquent, as defined in a written policy by the local governmental unit where the renaissance zone is located, on December 31 of the prior tax year under one or both of the following taxes:

- the city income tax;
- taxes, fees, and special assessments collected under the General Property Tax Act. (MCL 125.2690(1))

This term “tax liability attributable to business activity conducted within a renaissance zone” means the taxpayer's tax liability multiplied by the renaissance zone business activity factor (MCL 208.39b(9)(b))

There are tax limitations and other rules as follows:

- (1) Any part of the taxpayer's tax liability that is from illegal activity conducted in the renaissance zone cannot be used to figure the credit.
- (2) The credit allowed continues through the tax year in which the zone designation expires.
- (3) Tax liability used to determine the credit is the one figured before the credit for workers' disability compensation payments and the credit for investing amounts certified by the Michigan Economic Growth Authority, and after figuring all other SBT credits.

- (4) The credit cannot exceed the taxpayer's tax liability for the tax year.
- (5) Taxpayer claiming the credit cannot employ, pay a speaker fee to, or provide any remuneration, compensation or consideration to any person employed by the State of Michigan. This restriction also includes anyone with the state administrative board, or renaissance zone review board whose employment relates or is related in any way to authorizing or enforcing the credit allowed for any year in which taxpayer claims a credit and for three years after the last year the credit is claimed.
- (6) To be eligible for the credit, a qualified taxpayer must file an annual Single Business Tax return.
- (7) Any part of the tax liability from business activity related to a casino's operation (including operating a parking lot, hotel, motel, or retail store affiliated with that operation) cannot be used to figure the credit. (MCL 208.39b(2 and 8))

A renaissance zone must be created. A renaissance zone is a geographic area designated by the State Administrative Board. (MCL 208.39b(9)(a)) One or more qualified local governmental units can apply to the Renaissance Zone Review Board to designate the qualified local governmental unit or units (a county, city, village, or township containing an eligible distressed area) as a renaissance zone, which reviews the applications and then makes recommendations to the State Administrative Board.

All of the following criteria must be met:

- (1) The proposed zone's geographic area is found within the qualified local governmental unit's boundaries.
- (2) The application includes a development plan.
- (3) The proposed zone does not exceed 5,000 acres in size.
- (4) The zone does not contain more than 10 distinct geographic areas ("subzones"), each with a minimum size of 5 acres, although the local unit may designate up to 4 subzones in each renaissance zone to have no minimum size requirement.
- (5) Not more than 50% of the real property in each subzone described in (4) above is owned by the same person.
- (6) The application includes the proposed duration of the zone status, which cannot be more than 15 years, unless the duration is extended to 2017 as explained in the following paragraphs.
- (7) If the qualified local governmental unit has an elected county executive, the county executive's written approval of the application is required.
- (8) If the qualified local governmental unit is a city, the mayor's written approval of the application is required. (MCL 125.2684)

The State Administrative Board can designate additional renaissance zone as follows:

- A U.S. Defense Department military installation located within a governmental unit that was closed in 1977 or after 1990. (MCL 125.2688a(1))
- An alternative energy zone. (MCL 125.2688a(2 and 5))
- To promote and increase the research, development, and manufacturing of pharmaceutical products of an eligible pharmaceutical company. (MCL 125.2688a(2))
- As redevelopment renaissance zones (MCL 125.2688a(2))
- Agricultural processing facilities. (MCL 125.2683a)

The State Administrative Board cannot designate any additional renaissance zones after December 31, 2002. (MCL 125.2686(6)) However, local governmental units may apply to change the boundaries of existing renaissance zones.

Tool and Die Renaissance Recovery Zones:

Effective December 19, 2005, the Board of the Michigan Strategic Fund can designate up to 25 tool and die renaissance recovery zones. Such a zone has duration of renaissance zone status for a period of not less than five years and not more than 15 years, as determined by the Board of the Michigan Strategic Fund. If the Michigan Strategic Fund determines that the duration of renaissance zone status for a recovery zone is less than 15 years, it may extend the duration of renaissance zone status for the recovery zone for one or more periods that when combined do not exceed 15 years. Effective April 4, 2006, at least one of the recovery zones must consist of one or more qualified tool and die businesses that have a North American Industrial Classification System (NAICS) of 332997 (Industrial Pattern Manufacturers). (MCL 125.2688d(1))

A "qualified tool and die business property" means:

- Property owned by one or more qualified tool and die businesses and used by those businesses primarily for tool and die business operations. Qualified tool and die business property is used primarily for tool and die business operations if the qualified tool and die businesses that own the qualified property generate 75% or more of the businesses' gross revenue from tool and die operations that take place on the qualified business property at the time of designation.
- Property leased by one or more qualified tool and die business for which the business is liable for ad valorem property taxes and which is used by those businesses primarily for tool and die business operations. Qualified tool and die business property is used primarily for tool and die business operations if the qualified tool and die businesses that lease the qualified business property generate 75% or more of the qualified businesses' gross revenue from tool and die operations that take place on the qualified business property at the time of designation. The qualified tool and die business must furnish proof of its ad valorem property tax liability to the Department of Treasury. (MCL 125.2688d(7))

A "Qualified tool and die business" means a business entity that meets all of the following:

- Has a North American Industrial Classification System (NAICS) of 333511, 333512, 333513, 333514, 333515 or, effective April 4, 2006, 332997; or has a NAICS of 337215 and operates a facility within an existing renaissance zone, which facility is adjacent to real property not located in a renaissance zone and is located within a quarter mile of a Michigan technical education center.
- Has entered into a qualified collaboration agreement as approved by the Michigan Strategic Fund consisting of not fewer than four or more than 20 other business entities at the time of designation that have a NAICS of 333511, 333512, 333513, 333514, 333515, or, effective April 4, 2006, 332997.
- Has fewer than 75 full-time employees. (MCL 125.2688d(7))

A “qualified collaborative agreement” means an agreement that demonstrates synergistic opportunities, including, but not limited to, all of the following: sales and marketing efforts; development of standardized processes; development of tooling standards; standardized project management methods; and improved ability for specialized or small niche shops to develop expertise and compete successfully on larger programs. (MCL 125.2688d(7)(a))

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