MEGA TAX CREDITS

• What is a MEGA?
• MEGA Timeline
• MEGA Impact
• MEGA Liabilities
• MEGA/Good Jobs for Michigan/Michigan Business Development Program Comparison
Established via Public Act 24 of 1995, the Michigan Economic Growth Authority (MEGA) tax credit was the state’s response to interstate competition, providing a refundable tax credit against the business tax for companies expanding or relocating in Michigan.

1995: MEGA Program Established  
2011: End of Awarding New MEGA Credits

**MEGA Incentive Considerations**

- Definable “Project”
- Capital Investment
- Job Growth
- Competitive or Cost Disadvantage
- Local Government Financial or Economic Commitment
- Positive Impact to Michigan’s Economy
- Wages & Health Care Costs
• **Standard Credit** – Create at least 50 new jobs (1st year of credit)

• **High Technology Credit** – Create at least 5 new jobs by 1st year of operations and 25 new jobs by 5th year of operations and company is primarily engaged in high-tech activity as defined by the law

• **High-Wage Credit** – Create at least 5 new jobs by 1st year of operations and 25 new jobs by 5th year of operations, paying at least 300% of federal minimum wage

• **Rural Credit** – Create at least 5 new jobs by 1st year of operations and 25 new jobs by 5th year of operations in a county with a population less than 90,000 (by 5th year)

• **Retention Credit** – major capital investment resulting in the retention of existing Michigan employment. Company must invest at least $50,000 for each job retained
HOW IS THE MEGA CALCULATED?

• Qualified New Jobs (Wages + Employer Paid Benefits)
• Personal Income Tax (PIT) 4.25%
• Maximum Credit = 100%
• Maximum Term = 20 years

$2,500,000 (wages) + $500,000 (benefits) x 4.25% (PIT) = $127,500
$127,500 x 20 yrs (term) = $2,550,000
The MEGA Timeline highlights key amendments and changes to the program. Here are the key points:

- **1995**: PA 24 of 1995 established MEGA (Michigan Economic Growth Authority) and introduced job retention credits.

- **2000**: PA 144 of 2000 expanded MEGA to include retention and high-technology tax credits.

- **2003**: PA 248 of 2003 expanded MEGA further to include an additional credit for a distressed business and a separate job creation criteria for rural businesses.

- **2004** and **2005**: Various PA acts led to the elimination of Michigan Business Tax and its replacement by the Corporate Income Tax (CIT) the corporate income tax (CIT).

- **2006**: PA 110 and 111 of 2008 changed the MEGA retention formula to global retention credits and added new requirements.

- **2011**: PA 39 of 2011 eliminated new MEGA tax credits.

The timeline shows how the program has evolved, responding to changes in the economic landscape and legislative requirements.
VALUE OF MEGA APPROVALS\(^1\) BY CALENDAR YEAR

Estimated Credit Value at Time of Approval

- Estimated Credit Amount (New Jobs)
- Estimated Credit Amount (Existing)

Includes Amendments

1. Original estimates at time of MEGA board approval
MEGA had a net positive ROI.

The ROI expected to increase after maturity of existing agreements\(^1\).

Upjohn Institute: MEGA benefits-v-cost ratio estimated at 5:1\(^2\).

$2.30 tax dollars returned to the state for every $1 awarded\(^3\).

52,403 jobs created\(^4\).

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1. This assumes some of the certified jobs will last longer than the agreement terms under MEGA.
2. W.E. Upjohn Institute for Employment Research, “The Employment and Fiscal Effects of Michigan’s MEGA Tax Credit Program,” 2010, p. 20. Note that this study measures the economic benefit of the MEGA tax credit program, which is different than an ROI estimate. The conclusion does, however, corroborate findings of a net benefit / positive impact on the economy.
3. According to a REMI analysis of actual jobs and investments from a sampling of projects claiming credits between 2009 and 2013.
4. The sum total of each companies' certified jobs (a snapshot at year-end) during the peak filing-year of employment between 1996 and 2013.
The latest estimate for the total MEGA liability is $5.6B.
SUMMARY OF 2015 OEM MEGA AMENDMENTS

• Capped the overall credit value

• Set annual credit limits
  - Ford
  - FCA

• Required periodic forecasting

• Required new capital investment
  - GM: $1B
  - Ford: $3.1B
  - FCA: $1B
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<th>MEGA</th>
<th>MBDP</th>
<th>GJFM</th>
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<tbody>
<tr>
<td>Paid in future years</td>
<td>Funding appropriated and paid for up front</td>
<td>Funding with program cap to be paid in future years</td>
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<td>Impact on General Fund very difficult to forecast</td>
<td>Impact on General Fund known with certainty</td>
<td>Impact on General Fund predictable</td>
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<td>Averaged $1.8 billion in awards each fiscal year from 2007-2010</td>
<td>Averaged less than $57 million in awards each year from 2012-2019</td>
<td>$168.4 million in awards from 2018-2019</td>
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<td>Variable effectiveness: in certain years, far fewer jobs realized than forecasted</td>
<td>Strong effectiveness: approximately 92% of jobs committed are realized</td>
<td>Monitoring effectiveness: it is too early to determine effectiveness, but so far showing promising signs</td>
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<td>$74,661 per job(^1) (retention) $14,310 per job(^1) (job creation)</td>
<td>$6,734 per job(^2) (job creation)</td>
<td>$20,088 per job (job creation)</td>
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1. Present value at a 2% discount rate. Data set contains all MEGA liabilities from 2010-2031.
2. Data set contains all approved MBDP deals from FY2011-FY19 (as of June 10, 2019).
Michigan was in competition with 350 sites in North America. Despite Ann Arbor’s vibrant tech scene, Michigan was at a disadvantage to larger markets. The following state and local incentives were utilized to support the project successfully landing in Ann Arbor:

- Created 600 jobs, $43/hour wages, $150 million CapEx
- $16,171,948 Good Jobs for Michigan (10-Year, 100%)
- $2.5M MI Business Development Program grant
- 12-year PA198 Tax Abatement from Ann Arbor Township
- Ann Arbor SPARK Talent Support