SALES TAX REFUND PROGRAM
FOR MICHIGAN INDUSTRIAL EXPANSION

1. Purpose of Proposal.

To stimulate industrial expansion in Michigan by refunding the Michigan 4% Sales/Use Tax to industry on all future industrial buildings.

2. Why Just Industry?

The proposed tax refund is limited to industry because only industry is mobile and free to move from one state to another. Commercial construction and residential building are not free to travel and therefore should not be considered for inclusion in the tax refund.

3. Why A Refund Procedure?

A refund procedure rather than an outright exemption is proposed to simplify otherwise complex administrative problems.

On an exemption basis, thousands of contractors and tens of thousands of small subcontractors and vendors would have to be retrained and construction bidding practices changed for Michigan contracts only. Thousands of out-of-state equipment vendors would also become involved in the legal question, "Does this project qualify?"

On the proposed tax refund basis, the respective industry at the close of a building project would simply make a single claim to the Michigan Revenue Department for a refund on all Sales/Use Taxes paid by the various contractors, etc., supported by verifax copies of paid invoices showing the itemized amount of the taxes paid.

This could take the form of an audited statement from the Builder's CPA accounting firm if the state believed this precaution was necessary to prevent or minimize fraud.

4. Precedent for Tax Exemption.

At the present time Michigan, along with many other states, exempts industrial process equipment, process piping, machinery and a long list of items that can be definitely identified with the particular manufacturer's process as distinguished from the building itself. Some building items like transformers, switch gear and make-up air units can be pro-rated and a claim for a partial tax refund substantiated, but this leads into an argumentative shadow zone that would be automatically eliminated if all industrial work (process and building) were made tax exempt.
5. **Michigan Advertising Value.**

Michigan badly needs some unique advertising feature to positively convince industrial Boards of Directors that a concrete change of direction and attitude towards industry has taken place.

Compared to other states, Michigan has practically no special inducements to offer other than its natural resources, geographic location and manufacturing know-how.

6. **What Would It Cost?**

The attached table lists the industrial building for Michigan for the past ten years, an estimated material cost (60% of total) and an estimated tax loss computed as if the present 4% sales tax had been in effect for this entire period. The figures are quite erratic from year to year so the ten-year average tax loss of $2,640,780 is regarded as a reasonable guide to probable future cost in state revenue.

This is believed to be a very modest concession to industrial expansion when we consider that some competing states are spending that much each year for industrial promotion advertising alone.

7. **Tax Loss A One-Shot Deal.**

The tax loss on materials going into industrial construction is only a temporary, "apparent", loss. It should also be born in mind that it is a one time, one-shot deal.

Far more important is the sales tax to be gained from purchases generated by expended wages from newly created industrial jobs plus those generated from new and equally important satellite or service jobs. These are tax gains that go on and on year after year, indefinitely.

Using the generally accepted cost of $13,500 to create one new industrial job, about 67% will be for equipment, etc., now free of tax and 33% for building cost. Thus we can see that about 24,450 new industrial jobs were created on average over the past ten years in Michigan ($110,032,500 ÷ 1/3 of $13,500).

Assuming an average primary wage of $6,000 with 80% subject to tax, the sales tax gain from new industrial wages would be roughly $4,694,400 per year ($6000 x 80% x 24,450 x 4%).

However, each primary wage dollar generates through satellite jobs at least an equal amount in other wages so the "apparent" tax loss from the proposed industrial building rebate would be balanced and recaptured in less than four months ($2,640,780 ÷ $4,694,400 x 2).

The four months return on investment factor is an extremely favorable one. A ratio that businessmen can only dream about.
8. Is Michigan A Free Agent?

Neither the State of Michigan nor its local governments are free agents today in industrial matters. Jet planes and super highways have materially altered the pattern and concept of time and distance.

Since the end of World War II, many states and local areas have awakened to the fact that they are just as much in a competitive situation as the industries themselves. Without an expanding, healthy industry, our state government suffers, local governments suffer, labor suffers and commercial establishments wither and stagnate.

For Michigan there are only three major basic forms of primary wealth, namely, agricultural production, mineral, oil or other extractions and value added by manufacture to be split between all its citizens. The major future promise for Michigan lies in the value added by manufacture segment and that spells more factories and more primary industrial jobs.

9. Effective Date of Tax Refund.

To be reasonable and fair to all concerned, the effective date should be made retroactive on all industrial projects completed or occupied after January 1, 1965.

If the retroactive feature is not incorporated from the very start, there is always the danger that hesitancy or delay might be injected into some expansion plans.


To prevent abuse of the refund principle and to prevent long delays in settlements which could be very irritating to industry, the enabling act should include a clause somewhat as follows:

"Provided a refund claim is submitted in acceptable form, the Michigan Department of Revenue shall within thirty (30) calendar days mail a refund check to the claimant. All refund claims shall be subject to review and adjustment as necessary by post audit review for a period of fifty-two (52) weeks from the date of the refund check, except in the case of fraud."

11. Michigan's Hopes and Objectives.

Our immediate target should be:

First, take much better care of the industry we now have and eradicate the irritants and the "final-straw-on-the-camel's-back" which makes an industry throw up its hands and move out. Don't wait until the machinery is loaded on trucks and headed south.
11. **Michigan's Hopes and Objectives.** (Continued)

Second, create a positive program of judicious and sound industrial tax concessions to at least neutralize the tax lures from competing states by concrete evidence that we want and appreciate industry and that all levels of government thoroughly understand the vital economics of competitive manufacturing.

Third, give sound assurance to industry that they will not be harassed, delayed and whip-lashed by layer on layer of governmental workers and bureaus with archaic building codes, antiquated zoning ordinances, imaginary, unwritten regulations and autocratic dictates.

Fourth, when the Michigan exodus and erosion has been definitely reversed, go out after the healthy, multi-plant companies who are not looking for "something for nothing" and are primarily interested in a good home in a healthy area with a long-range program of demonstrated sincere mutual assistance to industry.

12. **Sales Tax Refund Fits.**

In conclusion, a refund of Sales/Use Tax for all future industrial construction fits into each of the above categories in a very positive manner without major cost. It is not advanced as a cure-all by itself alone. It is only one of several steps which needs to be taken by Michigan to make government (state and local) a dynamic partner with industry for business health, industrial growth and economic expansion.

Our minimum target for the next ten years should be not less than 100,000 new primary industrial jobs per year rather than a mere 24,450. This would mean new factories and plant additions with a construction cost of roughly $450,000,000 each year and new primary industrial payrolls of $600,000,000 annually.

The sales tax from these primary plus the secondary wages would be roughly $38,400,000 per year (2 x $600,000,000 x 80% x 4%) compared to a tax loss based on current expansion rate of only $2,640,780.

The gamble is one that Michigan should have the courage to take.

A. D. Walker
<table>
<thead>
<tr>
<th>YEAR</th>
<th>CONSTRUCTION COST *</th>
<th>APPROXIMATE MATERIAL COST (ROUNDED)</th>
<th>APPROXIMATE SALES/USE TAX at 4% RATE * (ROUNDED)</th>
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<tbody>
<tr>
<td>1961</td>
<td>$32,908,000</td>
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<td>42,340,000</td>
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<td>1959</td>
<td>193,801,000</td>
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<td>1958</td>
<td>109,965,000</td>
<td>65,979,000</td>
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<td>1957</td>
<td>80,489,000</td>
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<td>1956</td>
<td>118,687,000</td>
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<td>1955</td>
<td>123,367,000</td>
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<td>1954</td>
<td>98,607,000</td>
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<td>1953</td>
<td>184,796,000</td>
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<td>115,302,000</td>
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Total for 10 Years $1,100,325,000 $660,195,000 $26,407,800
Average for 10 Years $110,032,500 $66,019,500 $2,640,780

Source: Statistical Abstract of the U. S. (E. N. R. Data)

Notes: * Projects under $110,000 not reported. 4% rate used to show potential tax loss rather than actual 3% collections for previous years.