

Written Testimony to the House Tax Policy Committee

MMA Supports SB 935 (VanderWall), SB 936 (Runestad), SB 937 (VanderWall)

MMA appreciates the leadership of Senators VanderWall and Runestad in ensuring tax policy matches the economic circumstances created by the COVID-19 crisis. The state's tax revenues are generated by economic activity in the state. Tax revenues will be negatively impacted if companies do not survive the crisis. These bills help support the vitality of the economy while businesses both large and small struggle with the liquidity and cash flow challenges inherent in restarting operations.

Manufacturing is the largest sector of the Michigan economy and one of the first sectors to restart. However, the challenges in restarting long supply chains are many. The primary challenges are cash flow and liquidity. While companies may have the capital to get started, delays arise from the impacts on operational cash flow. Money is spent up front on raw materials, paying employees, the ongoing fixed costs and operational costs like energy, and of course taxes (property, income, sales and use); but income on those expenditures doesn't come for a few months afterward. Constrained cash flow hinders continuation of operations, and this is often the cause of business failure. June, July, August, September will be very telling months for many companies.

Manufacturing is uniquely vulnerable to cash flow and liquidity issues caused by shutdowns because it is capital-intensive and dependent on a fully functioning supply chain. Regardless of the product, success requires 100 percent of the parts to make the final product. If one company in supply chain falters because of cash flow, the whole supply chain is negatively impacted. One company shutdown in a supply chain causes stoppages up and down the chain in a ripple effect.

These bills recognize the partnership between the state and the source of tax revenues: the businesses impacted by the COVID-19 crisis. If the state can play a role in easing the cash flow challenges of businesses, the state will reduce the risk of business failure and ultimately support tax revenues to the state.

MMA supports these bills and encourages you to vote yes on these three bills so the state can help itself by recognizing the challenges imposed on businesses.

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