

No. 01-3960

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IN THE  
UNITED STATES COURT OF APPEALS  
FOR THE SIXTH CIRCUIT

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CHARLOTTE CUNO, et. al.,  
*Plaintiffs-Appellants,*

v.

DAIMLERCHRYSLER, INC., et. al.,  
*Defendants-Appellees.*

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On Appeal from the United States District Court  
for the Northern District of Ohio

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**BRIEF OF AMICUS CURIAE  
MICHIGAN ECONOMIC DEVELOPMENT CORPORATION IN  
SUPPORT OF PETITION FOR REHEARING  
WITH SUGGESTION FOR REHEARING EN BANC OF APPELLEE  
DAIMLER CHRYSLER CORPORATION**

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James R. Lancaster, Jr. (P38567)  
(lancasterj@michigan.org)  
Senior Vice President/General Counsel  
Michigan Economic Development Corporation  
300 North Washington Square  
Lansing, MI 48913  
Attorney for Amicus Curiae Michigan Economic Development Corporation

**IN THE UNITED STATES COURT OF APPEALS**  
**FOR THE SIXTH CIRCUIT**

CHARLOTTE CUNO, et. al., )  
*Plaintiffs-Appellants,* )  
v. ) Case No. 01-3960  
DAIMLERCHRYSLER, INC., et. al., )  
*Defendants-Appellees.* )  
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**DISCLOSURE OF CORPORATE AFFILIATIONS**  
**AND FINANCIAL INTEREST**

Pursuant to 6th Cir. R. 26.1 Amicus Curiae Michigan Economic Development Corporation asserts that as public body corporate pursuant to Michigan law, it is not required to submit a Corporate Disclosure Statement.

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James R. Lancaster, Jr. (P38567)

\_\_\_\_\_  
Date

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## **STATEMENT OF INTEREST**

Amicus Curiae Michigan Economic Development Corporation

(“MEDC”) is a public body corporate created under section 28 of Article VII of the State Constitution of 1963, and the Urban Cooperation Act of 1967, 1967 PA 7, MCL 124.501 to 124.512, by contractual interlocal agreement effective April 5, 1999 between local participating economic development corporations formed under the Economic Development Corporations Act, 1974 PA 338, MCL 125.1601 to 125.1636, and the Michigan Strategic Fund.

The MEDC’s interest in this case arises from the fact that it administers most of the economic development programs of the State of Michigan, including certain programs involving tax credits, and is the principal governmental agency in Michigan for promoting economic development. Because the State of Michigan resides within the 6th Circuit, the Court’s decision in this matter would serve as binding precedent in federal courts in Michigan, and therefore may affect Michigan laws involving economic development matters.

## **SUMMARY OF ARGUMENT**

The MEDC asserts that the decision of the Court in this matter must be reversed for the following reasons:

1. It is not supported by the case law which it cites as its supporting precedent; to the contrary, this decision is in fact unprecedented and is contrary to prior well established precedents.
2. The decision is internally inconsistent and contradictory because it upholds a property exemption on the basis that it is “related to the use or location of the property itself,” yet invalidates the Ohio investment tax credit, which also meets this criteria.
3. The decision is inconsistent with prior U.S. Supreme Court and other higher court opinions, upholding Michigan tax laws that include similar, though not identical, tax credits or deductions as being valid under the U.S. Commerce Clause.

## **INTRODUCTION**

The Michigan Economic Development Corporation (“MEDC”) supports the Appellee’s motion for rehearing in this matter. The MEDC files this Amicus Curiae brief because of its apprehension that this Court has embarked on a radical departure from well settled precedents interpreting the “dormant” commerce clause doctrine as it applies to state tax law. As acknowledged by the Appellant’s Appeal brief, they propose a “novel legal theory.” The MEDC strongly believes that the Court’s acceptance (at least in part) of this “novel legal theory” contradicts many well established precedents, and must be reviewed and reversed, immediately.

## **ARGUMENT**

This matter arises from this Court’s decision filed on September 2, 2004, in which it invalidated an Ohio investment tax credit (“Ohio ITC”) as violative of the commerce clause. The Ohio ITC grants a credit against that state’s corporate franchise tax for “purchases of new machinery and equipment... provided..[it is] installed in [Ohio].”

The Court in this case concluded that the Ohio ITC discriminates against interstate commerce by “coercing” businesses already subject to its state franchise tax to expand locally rather than out of state. *Slip. Op. at p.7*. Furthermore, the Court stated:

Moreover, as between two businesses, otherwise similarly situated and each subject to Ohio taxation, the

business that chooses to expand its local presence will enjoy a reduced tax burden, based directly on its new in-state investment, while a competitor that invests out-of-state will face a comparatively higher tax burden because it will be ineligible for any credit against its Ohio tax.

The Court then concluded that the Ohio ITC violated the third prong of the *Complete Auto Transit*<sup>1</sup> test (i.e., that a tax must not discriminate against interstate commerce). This conclusion is flawed for several reasons.

I. **The Cases Cited By The Court Do Not Support Its Conclusion.**

This case involves a tax incentive promoting purely in-state activity. The reasoning in the three cases cited by the Court do not support its conclusion. In *Boston Stock Exchange v. State Tax Commissioner*, 429 U.S. 318 (1997), *Maryland v. Louisiana*, 451 U.S. 725 (1981), and *Westinghouse Electric Corporation v. Tully*, 466 U.S. 388 (1984), the U. S. Supreme Court addressed legal and factual issues differing significantly from this case. Each of these Supreme Court decisions addressed situations where states essentially imposed a higher tax on some out-of-state good or service which had the affect of giving preferential treatment to in-state businesses; it did not involve a tax credit aimed at creating an incentive for in-state capital investment. In all three of the cited decisions (*Boston Stock Exchange*, *Westinghouse*, and *Maryland*) the Supreme

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<sup>1</sup> *Complete Auto Transit, Inc. v. Brady*, 430 US 274, 97 S.Ct. 1076, 51 L.Ed. 2d 326 (1977)



Court struck down tax laws that encouraged the development of local industry by imposing higher transactional taxes on economic activities occurring outside of the state than were imposed on similar in-state activities. The net effect was a tax on the sale of products or services in another state that was higher than on comparable in-state sales. This is clearly discriminatory.<sup>2</sup>

The crucial distinction between the cases cited in the Court's decision and this case is that the Ohio ITC does not tax any out of state sales. The Ohio ITC is a one-time "optional" tax incentive that promotes only in-state/intrastate investment. Sales of products or services are not taxed in any way. The Ohio ITC does not give a competitive advantage to in-state taxpayers like the statutes invalidated in *Boston Stock Exchange, Maryland* and *Westinghouse*. In fact, the tax credit appears to be equally available to both in-state and out-of-state businesses. The Ohio ITC does not constitute the type of discriminatory tax scheme typically held to violate the Dormant Commerce Clause doctrine. The typical application of this doctrine in the context of state tax law is to invalidate discriminatory tax schemes that unduly burden interstate commerce and give a competitive advantage to in-state taxpayers, and disadvantage out of state taxpayers. However, the Ohio ITC does not do this.

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<sup>2</sup> The Petition for Rehearing With Suggestion for Rehearing En Banc of Appellee DaimlerChrysler Corporation, at pp. 10 – 13, succinctly spells out the distinction; therefore, we rely upon that argument, and will not reiterate it here.

The Ohio ITC applies solely to in-state activity. This is exactly the type of tax incentive that courts interpreting the dormant commerce clause doctrine have consistently ruled are valid. The decision of the Court must be reconsidered for these reasons.

## II. **The Court's Reasoning Is Internally Inconsistent And Contradictory**

The Court upheld the validity of the personal property tax exemption that was challenged in this case. What is curious about this aspect of the opinion is that the rationale used to uphold the property tax exemption actually supports upholding the validity of the Ohio ITC:

Although conditions imposed on property tax exemptions may independently violate the commerce clause, conditional exemptions raise no constitutional issues, when the conditions for obtaining the favorable tax treatment are related to the use or location of the property itself. Stated differently, an exemption may be discriminatory if it requires a beneficiary to engage in another form of business in order to receive the benefit or is limited to businesses with a specified economic presence. *Cf. Maryland, 451 US at 756-57* However, if the conditions imposed on the exemption do not discriminate based on an independent form of commerce, they are permissible." (emphasis added) *Slip. Op. at p.12.*<sup>3</sup>

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<sup>3</sup> The Court, while citing no direct authority in support for its determination of the validity of Ohio's personal property tax exemption, looked to the *Maryland v Louisiana*, infra, as showing an example of state action that was unconstitutional. As the Court is undoubtedly aware, there is a substantial academic debate ongoing as to the validity of tax incentives on Commerce Clause grounds. One such article is authored by Professors Hellerstein and Coenen, entitled "Commerce Clause Restraints On State Business Development Incentives," 81 Cornell Law Review 289 (1996). This portion of the Court's decision is significant because it appears to adopt the one exception to what Professors Hellerstein and Coenen termed as their

In this case, the Ohio ITC invalidated by the Court is obviously a tax that is “related to the use or location” of the property itself. Though limited to businesses with a specified economic presence within the state, it does not discriminate against “out-of-state” businesses. Thus, the logic the Court used to uphold the property tax exemption appears to support upholding the validity of the Ohio ITC, as well.

Furthermore, the Court admits that a similar subsidy for economic development purposes would pass constitutional muster. The purpose of the Dormant Commerce Clause doctrine is not to exalt form over substance. Rather, its purpose is to strike down substantial and unjustified burdens on interstate commerce, and tax laws that either facially, or in effect, gives preferred treatment to specified local interest. The Ohio ITC does neither.

III. **Unless Overturned, This Decision is Potentially Disruptive to Economic Development Activity in the State of Michigan.**

Two prior higher court opinions, one by the U.S. Supreme Court in 1991, the other by the Michigan Supreme Court in 1992 (for which certiorari was denied), addressed the validity of Michigan’s taxing scheme and a similar investment tax

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“in-state favoritism/state-coercion” approach: the Commerce Clause is not offended where a state invites a taxpayer or potential taxpayer to invest so long as the tax burden is not increased for that taxpayer should the invitation be declined. . Id. at p.806 - 7.

credit statute in the face of a challenge on commerce clause grounds. If not reversed the holding in this case may call into question the continuing validity of those decisions.

In *Trinova Corporation v. the Department of Treasury*, 498 U.S. 358 (1991) the U.S. Supreme Court addressed a challenge to Michigan's Single Business Tax ("SBT"). The plaintiff in that case alleged that the Michigan SBT discriminated against out-of-state businesses in violation of the commerce clause. The U.S. Supreme Court flatly rejected this assertion. Subsequently, the Michigan Supreme Court rejected a challenge on commerce clause grounds to the validity of the capital acquisition deduction ("CAD") of the SBT, which is available only for capital investments related to Michigan business activities. See *Caterpillar, Inc. v. Department of Treasury*, 440 Mich 400, 488 NW2d. 182 (1992); *cert.den* 506 U.S. 1014 (1992). Therefore, since 1992 this tax preference for capital investment in Michigan stood as established law, with the apparent blessing of the U. S. Supreme Court, and has been relied upon the thousands of businesses.

While there are many features of the Michigan SBT CAD and other Michigan tax incentives that distinguish them from the Ohio ITC invalidated in this case, the Court's decision raises great concern that it intends to embark on an unprecedented change in commerce clause jurisprudence, following a new and admittedly novel theory regarding the interpretation of the commerce clause. It

appears that this Court is embarking on a significant departure from prior established commerce clause principles by adopting what the Plaintiffs themselves, as well as contemporary academic literature acknowledge is a novel legal theory not directly supported by existing precedents. MEDC strongly asserts that the Court should reconsider this position.

However, perhaps the most unsettling aspect of this decision is the chilling effect it is likely to have on economic development in Michigan.

Uncertainty is perhaps the biggest obstacle to the success of any economic development initiative. If the holding in this case is not reversed or modified significantly, it will create uncertainty as to the validity of various Michigan economic development incentives. This will undoubtedly have a negative impact on Michigan's ability to compete with other states, and internationally. The potential impact on the programs the MEDC administers is extraordinary. The State of Michigan in the past nine years has awarded incentive tax credits to 220 business expansion and retention projects which are expected to generate over \$11 billion in capital investment and the direct creation of 56,100 jobs through the year 2025. Using REMI Policy Insight, a nationally recognized econometric forecasting and policy analysis model, the State of Michigan has projected the creation of 62,301 additional indirect jobs. Total personal income generated as a result of the new jobs will be \$82.7 billion, and state revenues are projected to

increase \$5.4 billion, net of the cost of the credits.<sup>4</sup> Based on actual experience to date with the 65 projects on which credits have been collected, 13,443 direct jobs have been created paying average annual wages of \$37,149. Obviously, much is at stake if Michigan can no longer use tax incentives as an economic development tool.

### **CONCLUSION**

The MEDC respectfully requests that the Court reverse its decision and affirm the ruling of the District Court.

Respectfully submitted.

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James R. Lancaster, Jr.  
(lancasterj@michigan.org)  
Senior Vice President/General Counsel  
Michigan Economic Development Corporation  
300 North Washington Square  
Lansing, MI 48913  
Tel (517) 335-0236 Fax (517) 241-5968  
Attorney for Amicus Curiae Michigan Economic  
Development Corporation

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<sup>4</sup> These statistics have been calculated by the staff of the MEDC. The MEDC has also provided the underlying data to the Michigan Attorney's General's office. It is the MEDC's understanding that the law firm retained by the Attorney General to file an amicus brief on behalf of the State is performing an analysis using a different economic model than the model used by the MEDC. Therefore, the statistics in that brief may differ somewhat from it will not be repeated here. Any differences are insubstantial in light of what the information is intended to illustrate: state tax incentives are an important tool in promoting economic development.

**CERTIFICATE OF COMPLIANCE WITH  
FED. R. APP. P. 32(a) AND 6 TH CIR. R. 32(a)**

I hereby certify that this brief complies with type volume limitations of Fed. R. App. P. 32(a)(7)(C) and 6 TH Cir. R. 32(a), in that, according to the computer program Word 2002, that was used to create this brief, the relevant sections of the brief total 1,615 words.

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## CERTIFICATE OF SERVICE

I hereby certify that on this 17th day of September, 2004, two copies of the foregoing "Brief of Amicus Curiae - Michigan Economic Development Corporation" were sent postage prepaid, to the following counsel:

Terry J. Lodge, Esq.  
316 N. Michigan Street, Suite 520  
Toledo, OH 43624

Peter D. Enrich, Esq.  
North Eastern Univ. School of Law  
400 Huntington Avenue  
Boston, MA 02115

*Attorney for Plaintiffs-Appellants*

Jim Petro, Attorney General  
Douglas R. Cole  
State Solicitor  
Stephen P. Carney  
Senior Deputy Solicitor  
Robert C. Maier, Esq.  
Sharon A. Jennings, Esq.  
Assistant Attorneys General  
30 East Broad Street, 17<sup>th</sup> Floor  
Columbus, OH 43215

Theodore M. Rowen, Esq.  
Truman A. Greenwood, Esq.  
Spengler, Nathanson, P.L.L.  
608 Madison Ave., Ste. 1000  
Toledo, OH 43604

*Attorneys for Defendants-Appellees  
Toledo Public School District and*

*Washington Local School District*

Barbara E. Herring, Esq.  
Samuel J. Nugent, Esq.  
City of Toledo Law Department  
One Government Center, Ste. 2250  
Toledo, OH 43604

*Attorneys for Defendants-Appellees  
City of Toledo*

Erika Z. Jones  
Charles A. Rothfeld  
David M. Gossett  
Mayer, Brown, Rowe & Maw  
1909 K Street, NW  
Washington, DC 20006-1001

*Attorneys for Defendant-Appellant  
DaimlerChrysler Corporation*

John T. Landwehr  
Albin Bauer  
Eastman & Smith LTD.  
P. O. Box 10032  
Toledo, OH 43699-0032

*Attorneys for the State Defendants-  
Appellees*



I further certify that all parties required to be served have been served.

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