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BILL ANALYSIS

Senate Fiscal Agency

Lansing, Michigan 48909

(517) 373-5383

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Senate Bill 878

Sponsor: Senator Norman D. Shinkle

Committee: Finance

Date Completed: 5-25-88

SUMMARY OF SENATE BILL 878 as introduced 5-19-88:

The bill would amend the Single Business Tax Act to allow a taxpayer with annual gross receipts under \$6 million to choose to pay a tax of 4.6% on the business' profits, rather than using the current value-added method of taxation in the Act.

Currently, under the Act, a tax of 2.35% is levied on a taxpayer's "adjusted tax base". The adjusted tax base is determined by adding such things as net income, depreciation, interest and taxes paid, and compensation (salaries, wages, payroll taxes, pension, profit sharing plans), and subtracting the statutory exemption and the capital acquisition deduction. For a person who chose the proposed tax, the bill would impose a tax of 4.6% on the person's "tax base". "Tax base" would mean the person's "business income" derived from "business activity". "Business income" is defined in the Act as Federal taxable income for a corporation; for other taxpayers it means that part of Federal taxable income derived from business activity. "Business activity" is defined in the Act as a transfer or rental of real, personal, mixed, tangible, or intangible property, or the performance of services (but not services of an employee to an employer, services as a director of a corporation, or a casual transaction).

The bill provides that the tax base calculated under the bill would not include the capital acquisition adjustments required under the Act. This adjustment allows for the deduction of the value of depreciable real and personal property acquired, and the addition of the value of depreciable real property sold.

The bill also would repeal Section 36 of the Act, which allows for a small business credit: a taxpayer with under \$6 million in gross receipts can claim tax credits based on a percentage of business income. (This means that firms that continue to pay the single business tax based upon the value-added method currently available in the Act would no longer be allowed to claim the small business credit.)

MCL 208.9 et al

Legislative Analyst: G. Towne

FISCAL IMPACT

The bill would reduce General Fund/General Purpose revenues by at least \$160 million per year. See Senate Fiscal Agency memorandum dated May 25, 1988.

Fiscal Analyst: N. Khouri

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