

Legislative Analysis



TAX EXPENDITURE AMENDMENTS

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House Bills 5252-5256 as passed by the House

Sponsor: Rep. Andy Meisner

Committee: Tax Policy

Revised Summary

Complete to 9-28-07

A REVISED SUMMARY OF HOUSE BILLS 5252-5256 AS PASSED BY THE HOUSE

House Bill 5252 would amend the Tobacco Products Tax Act to sunset the bad debt deduction allowed to businesses who collect and remit the tax, as of September 30, 2007.

The bill also would eliminate the ability of the licensees under the act to withhold a portion of the amounts collected to cover administrative expenses associated with collecting and remitting the tax. Currently, this is 1.5 percent of the tax due on cigarettes sold.

House Bill 5253 would amend the Income Tax Act to require taxpayers for tax years beginning on or after January 1, 2008, to add to taxable income an amount equal to the difference between the amount deducted on the taxpayer's books and records kept in accordance with generally accepted accounting principles and the amount deducted in accordance with Section 168 of the federal Internal Revenue Code (which allows for accelerated depreciation). This would "decouple" state business depreciation rules from federal business depreciation rules and increase taxable income for Michigan taxpayers. This applies to businesses organized so that tax liability "flows through" to the individuals involved in ownership (such as partnerships, limited liability companies, and S-corporations.).

House Bill 5254 would amend the Use Tax Act and House Bill 5255 would amend the General Sales Tax Act to sunset as of October 1, 2007 a number of exempt transactions allowed to businesses. These transactions would then be subject to taxation. These include exemptions for:

- Meals provided free of charge or at a reduced rate to employees by restaurants.
- Periodicals admitted under federal postal laws and regulations as second-class mail.
- Personal property purchased or installed as part of water pollution and air pollution control facilities for which an exemption is issued under Part 37 of the Natural Resources and Environmental Protection Act (NREPA).
- Food and food ingredients sold from a vending machine.
- Bad debts of retailers collecting and remitting the taxes from taxable retail sales.
- Parts and materials affixed or to be affixed to certain passenger and cargo aircraft (e.g., as used in repairs and refurbishment).

- The use of wide area telecommunication services (WATS) or similar services, interstate private networks and related usage charges, and inbound and outbound international calls. (This is found in House Bill 5254 only). These would be taxed in the same manner as interstate telephone communications as of October 1, 2007. The exemption would also not apply to an 800 prefix service or similar services and certain other telecommunication-related services (coin-operated installations, switchboards, inter-office circuitry, etc.).

House Bill 5256 would amend the Natural Resources and Environmental Protection Act (NREPA) to apply to the certificates that the Department of Environmental Quality (DEQ) approves (for issuance by the State Tax Commission) that allows certain air and water quality facilities to be exempt from the sales and use taxes and from real and personal property taxes. The bill would specify that no exemption certificates could be issued after September 30, 2007. Also, as of that date, the facilities would no longer be exempt from property taxes (existing certificates would expire) and tangible personal property purchased and installed as part of a facility would no longer be exempt from sales and use taxes.

FISCAL IMPACT:

See chart on Page 3.

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Estimated FY 2007-08 Fiscal Impact of House Bills 5252 Through 5256 As Passed the House (Effective Date October 1, 2007)
 millions of dollars

Bill	Tax Change	General Fund/		School Aid Fund	Constitutional		Medicaid Benefits		Other 1)	Total
		General Purpose	Revenue Sharing		Trust Fund	Revenue Sharing	Trust Fund			
HB 5252	Tobacco Bad Debts/Collection Fee	3.5	0.0	7.4	0.0	5.6	0.0	0.0	1.2	17.7
HB 5253 2)	Accelerated Depreciation	60.0	0.0	10.0	0.0	0.0	0.0	0.0	0.0	70.0
HB 5254/5255	Air and Water Pollution Equipment	7.3	4.4	32.3	4.4	0.0	0.0	0.0	0.0	44.0
HB 5254/5255	Aircraft Parts	1.3	0.8	5.9	0.8	0.0	0.0	0.0	0.0	8.0
HB 5254/5255	Bad Debts	10.6	6.4	47.0	6.4	0.0	0.0	0.0	0.0	64.0
HB 5254/5255	Employee Meals	1.4	0.8	6.2	0.8	0.0	0.0	0.0	0.0	8.4
HB 5254	Communications and Telephone	24.7	0.0	12.3	0.0	0.0	0.0	0.0	0.0	37.0
HB 5254	Telecommunications - International/WATS	15.2	0.0	7.6	0.0	0.0	0.0	0.0	0.0	22.8
HB 5254/5255	Periodicals	5.8	3.5	25.7	3.5	0.0	0.0	0.0	0.0	35.0
HB 5254/5255	Vending Machines	4.2	2.5	18.4	2.5	0.0	0.0	0.0	0.0	25.0
HB 5256	Air & Water Pollution Equipment	<u>-5.4</u>	<u>0.0</u>	<u>5.6</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.2</u>
	Total	\$128.6	\$18.4	\$178.2	\$18.4	\$5.6	\$18.4	\$5.6	\$1.2	\$332.1

1) Other includes the Healthy Michigan Fund (\$0.7 million), the Health and Safety Fund (\$0.4 million), and Wayne County for Indigent Health Care (\$0.1 million).

2) Effective date would be 01/01/08