



Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536



BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

House Bill 5412 (Substitute H-1 as passed by the House)
Sponsor: Representative Steve Bieda
House Committee: Tax Policy

CONTENT

The bill would amend the Michigan Business Tax (MBT) Act to allow a credit against the MBT for private equity funds.

Specifically, an eligible taxpayer could claim a credit against the MBT equal to the taxpayer's tax liability for the tax year after claiming any other credits allowed under the Act, based on the ratio of total activity of the private equity fund manager conducted in the State during the tax year to the total activity of the fund manager conducted everywhere during the tax year.

The location of the activity of the private equity fund manager would be based on the location of the office from which the fund manager conducted management activity for the eligible taxpayer.

"Eligible taxpayer" would mean a taxpayer that is a private equity fund that serves as a conduit for the investment of private securities not listed on a public exchange by accredited investors or qualified purchasers at any time during which the investment is acquired or subsequently used to claim the credit under the bill.

Proposed MCL 208.1453

Legislative Analyst: Craig Laurie

FISCAL IMPACT

The bill would reduce State General Fund revenue by an unknown and potentially significant amount. The bill would effectively exempt private equity fund managers from the Michigan business tax. While these types of business may be classified under several activity codes, the estimated total liability from firms in the same category is substantial, totaling almost \$94 million for the 2008 tax year if the surcharge is included. It is unknown what proportion of those firms would actually qualify under the bill, but given that all liability would be affected by the proposed credit and that the level of the taxpayer's activities would be independent of the eligibility for the credit or the proportion of liability reduced by the credit, the bill could substantially reduce General Fund revenue. (For example, the bill would not require the taxpayer to engage exclusively in the activities that would qualify it as an eligible taxpayer or to meet a certain threshold—a single investment action could qualify a taxpayer for the credit and the proportion of liability reduced by the credit would be the Michigan activity divided by total activity.) If the bill affected 50% of the taxpayers operating in business classifications likely to be covered by the bill, the bill would reduce General Fund revenue by \$47 million per year.

The bill would have no fiscal impact on local government.

Date Completed: 12-11-07

Fiscal Analyst: David Zin

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Analysis available @ <http://www.michiganlegislature.org>

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