



**House  
Legislative  
Analysis  
Section**

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**REVENUE ACT; PENALTIES  
RECEIVED**

**Senate Bill 507 (Substitute H-1)**  
**First Analysis (11-9-87)**

**DEC 02 1987**

**Sponsor: Sen. Norman D. Shinkle**  
**Senate Committee: Finance**  
**House Committee: Taxation**

**Mich. State Law Library**

***THE APPARENT PROBLEM:***

Under the revenue act, the Department of Treasury is authorized to assess a penalty of \$10 or five percent per month of the tax due, whichever is greater, against a taxpayer who fails to file a return or pay a tax within the time specified, up to a maximum of 50 percent of the tax due. The department may also assess the same penalty against a taxpayer who files an estimated payment that is an insufficient amount to cover the tax liability. Prior to the passage of Public Act 58 of 1986, which amended the revenue act to create the tax amnesty program and increase various penalties for delinquent taxpayers, the maximum penalty was 25 percent. The department has thus far waived the penalty for insufficient estimated payments, in part because the calculations of penalty and interest are complicated for both the taxpayer and the department, and in part because of a concern that the penalty is too high.

***THE CONTENT OF THE BILL:***

The bill would amend the revenue act to specify that if a penalty is imposed for a deficiency in an estimated tax payment, the penalty would be at a rate of one percent per month, computed on a daily basis.

MCL 205.23

***HOUSE COMMITTEE ACTION:***

As passed by the Senate, the bill would have eliminated the penalty for making insufficient estimated payments, and decreased the penalty for failure to file estimated payments from five percent per month to one percent per month, computed on a daily basis. The House Taxation Committee adopted a substitute for Senate Bill 507 that would allow the treasury department to impose a penalty of one percent per month, computed on a daily basis, for failure to pay estimated payments or making insufficient estimated payments.

***FISCAL IMPLICATIONS:***

According to the Department of Treasury, the bill would result in a revenue loss of approximately \$5 million per year. (11-6-87)

***ARGUMENTS:***

***For:***

The current penalty for filing an insufficient income or single business tax estimated quarterly payment is five percent per month, up to a maximum of 50 percent of the tax due. Public Act 58 of 1986 increased this maximum from 25 percent to 50 percent as part of a general stiffening of penalties for delinquent taxpayers in concert with the tax amnesty program. The treasury department has found that the current law requires both the taxpayer and treasury department staff who process returns to complete two separate calculations, each rather complicated, in order

to figure the penalty and interest due on such insufficient payments. Further, the department has taken the position that the 50 percent maximum penalty is too harsh for the type of offense in question. The department has requested legislation to decrease the penalty and simplify the administration of this portion of the revenue act.

***Against:***

The bill would result in a \$5 million per year revenue loss to the state. This seems a rather substantial amount to be losing in return for simply easing the administrative responsibilities of the department, especially when many people are predicting an economic downturn and the necessity of trimming the state's budget in the current fiscal year.

***POSITIONS:***

The Department of Treasury supports the bill. (11-6-87)

**S.B. 507 (11-9-87)**