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SFA BILL ANALYSIS

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House Bill 4509 (as passed by the House)
Sponsor: Representative Barbara Dobb
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 9-30-97

CONTENT

The bill would amend the Use Tax Act to allow an intrastate telephone, telegraph, leased wire, or other similar communications service provider, or an interstate telephone communications service provider, to deduct from the tax uncollectible accounts from the price of services used to determine the "seller's" use tax liability.

Currently, the Act provides that the use of intrastate telephone, telegraph, leased wire, other similar communications services, and interstate telephone communications services, is taxable. The bill provides that the amount of an uncollectible account deducted from the price upon which use tax liability was calculated would have to be charged off as uncollectible on the books of the seller. The Department of Treasury could require supporting evidence for any claim of an uncollectible account.

If the seller provided taxable and nontaxable services, the deduction could equal the full amount of the uncollectible account only if the account were documented as a taxable transaction in the seller's records. If documentation were not available, the maximum deduction for any uncollectible account would be determined by calculating the uncollectible account's proportion of all services.

If a person paid all or part of an uncollectible account after the seller had claimed a deduction, the seller would be liable for the amount of taxes deducted for that portion of the uncollectible account, and would have to remit the taxes in its next payment to the Department.

"Uncollectible account" would mean any portion of a debt related to the provision of a service for which the price was not deductible or excludable, that had become worthless or uncollectible (during the time between the date when taxes accrued to the State for the seller's immediately preceding use tax return and the date when taxes accrued to the State for the current return) and that was or could be eligible to be claimed if the provider kept accounts on an accrual basis as a deduction under Section 166 of the Internal Revenue Code. An uncollectible account would not include any interest on the price, expenses incurred in attempting to collect any account receivable or any portion of the debt recovered, or any account receivable that had been sold to a third party.

(Section 166 of the Internal Revenue Code allows taxpayers to deduct "wholly worthless debts" from Federal income tax.)

Proposed MCL 205.98 Legislative Analyst: G. Towne

FISCAL IMPACT

The estimated State fiscal impact would be a reduction of $4.0 million if all taxpayers were paying the tax; however, only $1.3 million is currently collected per year.

Fiscal Analyst: R. Ross

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