

Senate Fiscal Agency  
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## BILL ANALYSIS

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Senate Bill 405 (Substitute S-1 as passed by the Senate)  
Sponsor: Senator Gary Peters  
Committee: Finance

Date Completed: 5-25-99

**RATIONALE**

Many private sector businesses and firms offer their employees pension or retirement programs in which, typically, both the employer and the employee make contributions toward the employee's eventual retirement benefit. Companies often use retirement plans as an incentive to attract quality employees. It has been pointed out that small businesses sometimes struggle in this regard; reportedly, approximately 20% of small businesses offer some type of pension or retirement plan. Some people believe that the number of small businesses offering a retirement plan could be improved if a tax credit were available to offset the costs of starting a plan.

**CONTENT**

The bill would amend the Single Business Tax (SBT) Act to allow a taxpayer with 20 or fewer employees, that established a "qualified retirement plan", to claim a credit against the SBT equal to \$1,500 or 50% of the start-up fees the taxpayer paid to establish the plan, whichever was less. A "qualified retirement plan" would be a program that provided retirement or pension benefits for all employees, implemented by a taxpayer that had not previously offered any retirement or pension plan or program to its employees. "Retirement or pension benefits" would be any distribution from a 401(K) plan, or retirement or pension benefits as specified under the Income Tax Act.

The bill would allow a taxpayer to claim the credit only in the tax year in which the qualified retirement plan was first established.

The bill would apply to tax years beginning on or after January 1, 2000, and ending before January 1, 2005.

Proposed MCL 208.39d

**ARGUMENTS**

*(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)*

**Supporting Argument**

Obviously, it is critical for persons to have funds available to them upon retirement. While most large and mid-sized companies provide retirement

programs for their employees, many small businesses have not been able to do so. This means that many of the people who work in small businesses enter retirement with little or no retirement income other than Social Security, unless they have made extraordinary efforts to save. Further, small businesses with no retirement program find it hard to retain quality employees if those employees qualify for jobs in other businesses, or larger firms, that offer retirement benefits. One of the obstacles that small businesses face in providing retirement plans is the initial administrative cost involved in starting a plan. By allowing a one-time credit for start-up fees paid by an employer to establish a plan, the bill would offer an incentive for small businesses to offer retirement plans. This would, in turn, increase the number of small business employees who participate in retirement plans.

Legislative Analyst: G. Towne

**FISCAL IMPACT**

This bill would reduce single business tax revenue by an estimated \$2 million in FY 1999-2000 and \$6 million in FY 2000-01. This loss in revenue would affect the General Purpose portion of the General Fund.

Fiscal Analyst: J. Wortley

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.