



**House  
Legislative  
Analysis  
Section**

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**SBT PHASEOUT: NEW TRIGGERS**

**Senate Bill 117 with House committee  
amendment  
First Analysis (6-5-02)**

**Sponsor: Sen. Glenn D. Steil  
House Committee: Commerce  
Senate Committee: Finance (Discharged)**

***THE APPARENT PROBLEM:***

The state's single business tax is being phased out, with the rate to be reduced by one-tenth of one percent on January 1<sup>st</sup> of each year. The phaseout began with the SBT rate at 2.3 percent and the reductions began in 1999 with the rate lowered to 2.2 percent. The SBT rate as of January 1, 2002 is 1.9 percent, and rate is scheduled to be 1.8 percent for 2003. However, for the rate to be reduced in any year, the ending balance in the countercyclical budget and economic stabilization fund (the BSF or "rainy day fund") for the prior fiscal year must be greater than \$250 million. Given the state's current budget difficulties, it is possible that the BSF will fall to \$250 million or below in the current or next fiscal year. Some people believe that the business tax cut should remain in place regardless of the BSF balance.

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

Senate Bill 117 would amend the Single Business Tax Act so that there would need to be an amount greater than \$50,000 in the countercyclical and economic stabilization fund (BSF) for the annual SBT rate reduction to take place.

Moreover, the bill would specify that if the ending balance in the BSF exceeded \$1.2 billion in any fiscal year or if deposits in excess of \$250 million were made into the fund in a fiscal year, the SBT rate would be reduced for the next calendar year by an additional one-tenth of one percent.

MCL 208.31

***HOUSE COMMITTEE ACTION:***

As passed by the Senate, the bill would have allowed the SBT rate reduction to continue if the year-end balance in the BSF exceeded \$1. The House Committee on Commerce adopted an amendment to make that figure \$50,000.

***FISCAL IMPLICATIONS:***

The House Fiscal Agency notes that the fiscal impact of Senate Bill 117 depends on the SBT rate as determined by the year-end BSF balance. The HFA says that the BSF year-end balance is estimated to be \$448.5 million for fiscal year 2001-2002 (the current fiscal year) and \$224.9 million for fiscal year 2002-2003. (This assumes enactment of a substitute version of Senate Bill 750 withdrawing \$207 million from the BSF for the general fund and stopping the \$35 million scheduled withdrawal for the State Trunkline Fund in fiscal year 2002-2003.)

The agency points out that under current law, if Senate Bill 750 (S-1) were enacted and the end-year BSF balance fell to \$250 million or less for fiscal year 2002-2003, the SBT rate would not decline on January 1, 2004, which would affect fiscal year 2002-2003 revenues. Based on the May 2002 consensus estimate, one-tenth of one percent of fiscal year 2002-2003 SBT revenue is \$116 million. The fiscal impact of Senate Bill 117 (to allow the rate increase regardless of the amount in the BSF) would affect general fund/general purpose revenues. (6-3-02)

***ARGUMENTS:***

***For:***

The bill would accomplish two valuable aims: 1) it would allow the scheduled SBT tax cut to continue on schedule even if the BSF is drawn down to very little; and 2) it would accelerate the tax cut (doubling the rate at which the cut progresses) in the event that the BSF is replenished to its previous high levels (\$1.2 billion) or that a large transfer is made (over \$250 million) in any year into the BSF. The steady reduction in the SBT rate is of great value to the state's business climate, particularly in a state said to have a high business tax burden. Proponents say that fostering a healthy business climate will encourage a rebound in the economy and improve employment opportunities. It makes little sense to make matters worse for business and for the state generally over the

Senate Bill 117 (6-5-02)

long run, keeping taxes higher than they ought to be, in order to solve current budget problems. Budget cuts are preferable to tax increases. The SBT has been detrimental to the state's businesses for years and the gradual elimination of the tax should not be dragged out. (Indeed, some would say it should be accelerated.) Moreover, reducing the amount of the current trigger will remove an obstacle to using money from the BSF to address budget problems. The money is less likely to be available if its use would result in the suspension of tax reductions.

***Against:***

The SBT tax cut ought to be interrupted or postponed when the BSF is at low levels, as the SBT phaseout law currently requires. It was prudent public policy at the time to institute a "trigger" that would halt the SBT rate reduction when the state's fiscal position significantly weakened, and it remains good public policy. The \$250 million trigger should remain. The point of the provision is to safeguard the state's ability to meet its budgetary responsibilities, to keep vital state services going in times of revenue declines. It may be well and good to devote some portion of substantial revenue growth to tax cuts (as SBT phaseout advocates said when it began), but is it sensible to continue the phaseout when revenues are flat or in decline? Indeed, some people believe that the SBT tax phaseout should be postponed to deal with current budget problems regardless of current BSF levels, as a prudent measure to ensure that the state can meet its obligations and the needs of its residents. To drain the BSF and at the same time continue to cut SBT (and other) tax rates, is to tie the hands of future legislatures by reducing their budget options. Some people would argue that the problem is not simply a matter of poor current economic conditions but a structural deficit stemming from an erosion of tax revenues.

***Against:***

There are concerns that the provision that would accelerate the tax cut based on the amount put in the BSF in any year or based on the total in the BSF could have the perverse effect of inhibiting state government from saving. That is, legislators might resist saving (by contributing the BSF) in order to prevent the loss of revenue from the accelerated cut.

***POSITIONS:***

The Michigan Manufacturers Association supports the bill. (6-4-02)

The Michigan State Chamber of Commerce supports the bill. (6-4-02)

The Department of Treasury has no position on the bill at present. (6-4-02)

The Michigan Education Association is opposed to the bill. (6-4-02)

Analyst: C. Couch

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.