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SFA**BILL ANALYSIS**

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Senate Bill 1322 (as enrolled)
Sponsor: Senator Joanne G. Emmons
Senate Committee: Finance
House Committee: Energy and Technology

Date Completed: 7-15-02

CONTENT

The bill would amend the Single Business Tax Act to do the following:

- Repeal the Act for tax years that begin after 2009.
- Increase the filing threshold from \$250,000 to \$350,000 for tax years that begin after 2002.
- Allow a taxpayer, for tax years beginning after 2002, to claim a credit against the SBT for certain qualified business activity if certified under the Michigan Next Energy Authority Act (proposed by Senate Bill 1316); and/or claim a credit for qualified payroll if the taxpayer were located in an alternative energy zone.

Filing Threshold

The bill states that, notwithstanding any other provision of the Act and for tax years that begin after December 31, 2002, a person whose apportioned or allocated gross receipts were less than \$350,000 for the tax year would not have to file a return or pay the tax as provided under the Act.

Qualified Business Activity Credit

Under the bill, a taxpayer that was an eligible taxpayer could claim a nonrefundable credit for a tax year. An "eligible taxpayer" would be a taxpayer that had proof of certification of qualified business activity under the proposed Michigan Next Energy Authority Act. "Qualified business activity" would be research, development, or manufacturing of an alternative energy marine propulsion system, an alternative energy system, an alternative energy vehicle, alternative energy technology, or renewable fuel, as those terms would be defined in the proposed Act.

The credit for a tax year would be equal to the amount by which the taxpayer's single business tax (SBT) liability attributable to qualified business activity for the tax year exceeded the taxpayer's baseline tax liability attributable to qualified business activity. (The baseline tax liability would be determined by a formula specified in the bill that would measure a taxpayer's SBT liability for the 2001 tax year, based on property value and payroll for qualified business activity of the taxpayer outside a renaissance zone, compared with all of the taxpayer's property value and payroll for qualified business activity in the State.) An eligible taxpayer could not claim the credit for any tax year in which the taxpayer's SBT liability attributable to qualified business activity did not exceed the taxpayer's baseline tax liability attributable to qualified business activity. An affiliated group, a controlled group of corporations, or an entity under common control could not take the credit unless the qualified business activity of the group or entities was consolidated.

A taxpayer that claimed the credit would have to attach to the annual return a copy, as issued under the proposed Michigan Next Energy Authority Act, of proof of certification of each of the following: that the taxpayer was an eligible taxpayer for the tax year; the taxpayer's tax liability attributable to qualified business activity for the tax year; and the taxpayer's baseline tax liability attributable to qualified business activity.

Qualified Payroll Credit

The bill provides that a taxpayer that was a qualified alternative energy entity could claim a refundable credit for the taxpayer's qualified payroll amount. A "qualified alternative

energy entity" would be a taxpayer located in an alternative energy zone (a renaissance zone designated as an alternative energy zone by the board of the Michigan Strategic Fund). A "qualified payroll amount" would be an amount equal to payroll of the qualified alternative energy entity attributable to all its qualified employees in the tax year for which the credit was being claimed, multiplied by the income tax rate for that tax year. A "qualified employee" would be an individual who was employed by a qualified alternative energy entity, whose job responsibilities were related to the research, development, or manufacturing activities of the entity, and whose regular place of employment was within an alternative energy zone.

If the credit exceeded the taxpayer's SBT liability for a tax year, the portion of the credit that exceeded the tax liability would have to be refunded. A taxpayer would have to claim the credit after all allowable nonrefundable credits were claimed under the SBT Act.

Proposed MCL 208.39e

Legislative Analyst: George Towne

FISCAL IMPACT

The changes this bill would make to the single business tax, which are described above, would have the following fiscal impacts.

Alternative Energy Payroll Credit. It would take time for businesses to locate and begin operations in the proposed alternative energy zone, so it is anticipated that this refundable credit would have no fiscal impact in FY 2002-03, and a revenue loss of less than \$200,000 in FY 2003-04. The cost of this credit would increase over time as more businesses were to locate in the zone and expand their operations.

Alternative Energy Business Activity Credit. It is estimated that this nonrefundable credit would reduce single business tax revenue by about \$200,000 in both FY 2002-03 and FY 2003-04. If alternative energy activity continues to grow in Michigan, this credit would become much more costly in future years.

Filing Threshold. Increasing the filing threshold from \$250,000 to \$350,000 of

apportioned gross receipts would eliminate the tax liability for about 13,800 businesses and reduce single business tax revenue an estimated \$18.5 million in both FY 2002-03 and FY 2003-04.

Accelerate Repeal of Single Business Tax. The single business tax, which under the current schedule could be repealed no earlier than tax years beginning after December 31, 2020, would be repealed for tax years that begin after December 31, 2009, under this bill. According to the current tax reduction schedule, the single business tax rate, which presently is 1.9%, would equal 1.1% in 2010. In current dollars (not adjusting for inflation or economic growth), the repeal of the single business tax in 2010 would equate to a loss in revenue of about \$1.1 billion.

Fiscal Analyst: Jay Wortley

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