Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

House Bill 4557 (as passed by the House)
Sponsor: Representative Barbara Farrah
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 5-28-03

CONTENT

The bill would amend the Income Tax Act to redefine "business income".

Currently, business income is income arising from transactions, activities, and sources in the regular course of the taxpayer's trade or business and includes income from tangible and intangible property if the acquisition, rental, management, or disposition of the property constitutes integral parts of the taxpayer's regular trade or business operations.

Under the bill, "business income" would mean all income arising from transactions, activities, and sources in the regular course of the taxpayer's trade or business, including and limited to the following:

-- All income from tangible and intangible property if the acquisition, rental, management, or disposition of the property constituted integral parts of the taxpayer's regular trade or business operations.
-- Gains or losses from stock and securities of any foreign or domestic corporation and dividend and interest income.
-- Income derived from isolated sales, leases, assignment, licenses, divisions, or other infrequently occurring dispositions, transfers, or transactions involving property if the property were or had been used in the taxpayer's trade or business operation.
-- Income derived from the sale, liquidation, or winding up of a business.

Within two years after the bill's effective date, the Department of Treasury would have to report the impact of the bill on the income tax liability of resident and nonresident taxpayers, to the House Tax Policy Committee and the Senate Finance Committee.

The bill contains the following statement: "This amendatory act is curative and intended to clarify the original intent of the legislature with respect to, and prevent any misinterpretation of, the term regular as used in the definition of business income."

MCL 206.4 Legislative Analyst: George Towne

FISCAL IMPACT

The bill would reduce business income as defined in the Income Tax Act and increase nonbusiness income. Because business income is apportioned and nonbusiness income is not apportioned, this bill would increase the taxes paid by both Michigan businesses and out-of-state businesses with business activity in Michigan, in excess of the $6 million that this bill would have generated as originally introduced.

Fiscal Analyst: Jay Wortley

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