

Legislative Analysis



SBT: SMALL BUSINESS CREDIT

Mitchell Bean, Director
Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

Senate Bill 957 as passed by the Senate

Sponsor: Sen. Nancy Cassis

House Committee: Tax Policy

Senate Committee: Finance

Complete to 1-20-06

A SUMMARY OF SENATE BILL 957 AS PASSED BY THE SENATE 1-19-06

Senate Bill 957 would amend the Single Business Tax Act (MCL 208.36) to reduce the alternative rate for certain small, low-profit firms, and increase the maximum allowable shareholder or officer-allocated income used to determine eligibility for the small business credit/alternative rate.

Under current law, certain small, low-profit businesses may calculate their SBT tax liability by claiming the small business credit, which may be calculated in one of two ways. Firms may use the standard calculation whereby the credit is based on the ratio of adjusted business income to 45 percent of the SBT base. Alternatively, firms may calculate the small business credit by claiming a credit equal to the amount by which tax liability (before other credits) exceeds two percent of adjusted business income. The tax liability after application of the alternative credit is generally equal to two percent of adjusted business income. (This alternate method of calculating tax liability is widely known as the alternative rate method.)

The bill would increase the amount of the alternative credit to the amount by which tax liability exceeds one percent of adjusted business income for tax years that begin on or after January 1, 2006. Effectively, the bill reduces the alternative rate from two percent to one percent.

Firms are eligible for the small business credit (using either calculation method) if, among other criteria, individual shareholder or officer-allocated income does not exceed \$115,000. However, the amount of the credit is reduced based on the extent to which income exceeds \$95,000. The bill would increase the maximum income level from \$115,000 to \$125,000, and increase the income levels used to reduce the credit as follows, for tax years beginning on or after January 1, 2006:

Percentage of Credit Reduction		
<u>Current Income</u>	<u>Proposed Income</u>	<u>Reduction Percentage</u>
\$0 to \$95,000	\$0 to 105,000	0%
\$95,001 to \$99,999	\$105,001 to 109,999	20%
\$100,00 to \$104,999	\$110,000 to \$114,999	40%
\$105,000 to \$109,999	\$115,000 to \$119,999	60%
\$110,000 to \$115,000	\$120,000 to \$125,000	80%

FISCAL IMPACT:

The bill would reduce General Fund/General Purpose (GF/GP) revenue by an estimated \$21.2 million in FY 2005-06 and \$29.0 million in FY 2006-07. The bill would have no direct impact on local units of government.

BACKGROUND INFORMATION:

The small business credit was first established with Public Act 273 of 1977, and is currently available to firms meeting the following criteria:

- Gross receipts not exceeding \$10 million
- Adjusted business income not exceeding \$475,000
- Individual shareholder or officer-allocated income not exceeding \$115,000.

In addition, if a firm's gross receipts exceed \$9 million, the amount of the credit is reduced by the following fraction:

$$\frac{\text{Gross Receipts} - \$9.0 \text{ Million}}{\$1.0 \text{ Million}}$$

Initially, the gross receipts threshold was \$3 million. Over the years the amount has been increased to \$6 million for tax years 1984 through 1988, \$7 million for tax year 1989, \$7.25 million for tax year 1990, and \$7.5 million for tax year 1991. The current threshold of \$10 million was added by Public Act 98 of 1992, and has been in effect since tax year 1992.

The adjusted business income limit was added by Public Act 216 of 1982, and initially set at \$300,000 for tax years beginning before 1984, \$450,000 for the 1984 tax year, and \$475,000 for tax years beginning on or after January 1, 1985. The limit has remained unchanged since its initial enactment.

When first enacted in 1977, the individual shareholder or officer-allocated income limit was \$60,000. Public Act 216 of 1982 increased that amount to \$90,000 for the 1984 tax year, and \$95,000 for the 1985 tax year and later years. The current limit of \$115,000 was set by Public Act 284 of 1995, and has applied to tax years since 1998.

The alternative rate was first established by Public Act 390 of 1988 at a rate of four percent. Public Act 245 of 1994 lowered the rate to three percent for tax years after 1991, and to the current rate of two percent for tax years beginning on or after October 1, 1994.

Legislative Analyst: Mark Wolf
Fiscal Analyst: Jim Stansell

■ 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.