

Legislative Analysis



ELIMINATE HEALTH CARE BENEFITS FROM SBT BASE

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House Bill 4342 as introduced
Sponsor: Rep. Tim Moore
Committee: Tax Policy

First Analysis (2-23-05)

BRIEF SUMMARY: The bill would exclude from the base of the Single Business Tax 100 percent of health care benefits provided to Michigan residents for tax years that begin after December 31, 2005.

FISCAL IMPACT: The bill would reduce General Fund/General Purpose revenue by an estimated \$22.5 million in Fiscal Year 2006 and \$30 million to \$35 million in Fiscal Year 2007.

THE APPARENT PROBLEM:

The base of the Single Business Tax is composed of federal taxable income, compensation, and several additions and subtractions to federal taxable income. For the purposes of determining the SBT base, compensation includes salaries, wages, and employee benefits, such as health insurance. Over the years, the Single Business Tax Act has been amended to exclude Social Security, workers compensation, and unemployment insurance from the compensation portion of the SBT base. The SBT Act, as amended by Public Acts 240 and 241 of 2003, now also excludes a percentage of health care benefits provided to Michigan residents and related administrative costs from the compensation portion of the tax base.

The occasion for the 2003 amendments that removed a portion of health care benefits from the SBT base was an agreement between Governor Granholm and the legislature to erase a \$920 million budget deficit in FY 2003-2004; the agreement also included, among other things, a pause in the scheduled reduction in the income tax rate. But for long before that, the inclusion of health insurance benefits in the base of the SBT had been a vexing issue for the state's business community, who largely view it as a major impediment to job growth and a strong disincentive for businesses to provide health insurance to employees. Many contend that, while recent efforts to exclude a portion of health care benefits from the SBT are a step in the right direction in improving Michigan's business tax climate and competitiveness, health care benefits should be completely excluded from the SBT base, particularly given that Michigan is now lagging behind other states in economic growth.

THE CONTENT OF THE BILL:

Currently under the Single Business Tax Act, the following percentages of health care benefits (and related administrative costs) provided to Michigan residents are excluded

from "compensation" in determining the base of the SBT: 20 percent in 2005; 40 percent in 2006; and 50 percent in 2007, 2008, and 2009. (The entire SBT Act is due to be repealed for tax years that begin after December 31, 2009.)

House Bill 4342 would amend the SBT Act to exclude from the SBT base 100 percent of health care benefits (and related administrative costs) provided to Michigan residents for tax years that begin after December 31, 2005.

MCL 208.4 and 208.4a

ARGUMENTS:

For:

Including the cost of employee health benefits in the base of the SBT effectively amounts to a state health care tax on businesses. This, the business community contends, greatly discourages them from adding employees and providing employees with health insurance benefits. Given the ever-increasing nature of health care costs, businesses that provide health benefits have had to increase premiums or reduce coverages. Moreover, as their health care costs increase, so does their SBT liability. These increasing costs, taken together, limit the ability of employers to provide affordable and meaningful health insurance benefits. Eliminating this so-called health care tax, then, will remove one of the chief barriers to providing workers with health insurance and reduce the tax liability of many businesses in the state.

Response:

There is no guarantee that any savings to businesses will be passed on in the form of new or improved health care benefits. According to the Department of Treasury, approximately one-quarter of SBT taxpayers will receive a direct benefit from this bill. These, in all likelihood, will be companies that already provide employees with generous benefits. By contrast, a great number of small businesses have little or no single business tax liability. The bill will do nothing in terms of providing health benefits to their employees.

Against:

Some people are concerned about the amount of foregone revenue resulting from the bill, particularly considering the state's continuing budget difficulties. The \$23 million in lost revenue for FY 2006 must be accompanied by the same amount in budget cuts or other revenue increases. After years of budget cuts, finding more cuts that do not adversely impact the state's quality of life and the quality of state services will be difficult.

Response:

Supporters argue that reducing state revenue by \$23-35 million annually means \$23-35 million that will be returned to businesses for investment and, ultimately, job growth. Given the state's comparatively high unemployment rate and lackluster economic growth, steps must be taken to attract businesses and spur the creation of jobs in the state.

Against:

Some are concerned about the relatively narrow focus of the bill. Rather than tinkering around the edges of state tax policy, a more comprehensive revamping of the state's tax system is needed. The Single Business Tax is complicated and generally despised by the state's business community, who see it as major impediment to job growth. This bill, alone, does not address all the relevant issues. Others contend that the bill should be considered along with, not separate from, the governor's recently proposed tax overhaul (referred to as the Michigan Jobs and Investment Act). That proposal, the Granholm Administration asserts, is a more comprehensive approach that will benefit about three-quarters of the state's businesses.

Response:

Alone, the bill is a good first step in making the SBT more palatable to the state's business community and in improving the state's business tax climate. This sends the message to businesses in Michigan and elsewhere that the state is working toward attracting and retaining businesses and improving its competitiveness. In addition, Michigan is one of the few states that tax health insurance benefits. This, critics say, clearly places Michigan at a disadvantage with other states. Moreover, it is difficult for this bill, at the moment, to be considered along with the governor's plan because few details of the proposal have been released and legislation has yet to be introduced. However, given the nature of the lawmaking process, it is likely that this bill will, in due time, be considered by the legislature and the governor in the broader context of improving the state's overall tax climate.

Against:

State tax specialists have defended including health benefit costs in the SBT base as consistent with the philosophy of a value-added tax. The inclusion is not intended to be punitive. Health benefits are an element in the costs of employing labor and, as such, are legitimately included in the value added by labor.

POSITIONS:

The Michigan Chamber of Commerce supports the bill. (2-23-05)

The National Federation of Independent Businesses supports the bill. (2-23-05)

The Small Business Association of Michigan supports the bill. (2-23-05)

The Michigan Manufacturers Association supports the bill. (2-23-05)

The Michigan Association of Homebuilders supports the bill. (2-23-05)

The Michigan Bankers Association supports the bill. (2-23-05)

The Michigan Association of Insurance and Financial Advisors supports the bill. (2-23-05)

The Michigan Association of Health Plans supports the bill. (2-23-05)

The Michigan Restaurant Association supports the bill. (2-23-05)

The Michigan Business and Professional Association supports the bill. (2-23-05)

The Detroit Regional Chamber supports the bill. (2-23-05)

The Grand Rapids Chamber of Commerce supports the bill. (2-23-05)

The Ann Arbor Chamber of Commerce supports the bill. (2-23-05)

The Department of Treasury opposes the bill. (2-23-05)

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■ 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.