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BILL ANALYSIS

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Senate Bill 634 (as enrolled)
Sponsor: Senator Nancy Cassis
Senate Committee: Finance
House Committee: Tax Policy

PUBLIC ACT 295 of 2005

Date Completed: 4-4-07

CONTENT

The bill amended the Single Business Tax Act's apportionment formula to increase the weight of the sales factor from 90% to 92.5% and decrease the weight of the property and payroll factors from 5% to 3.75% for tax years beginning after December 31, 2005, and before January 1, 2008.

Under the Act, all of the tax base, other than the tax base derived principally from transportation, financial, or insurance carrier services or specifically allocated, must be apportioned to the State. The apportionment previously multiplied the tax base by a percentage, which was the sum of the following:

- The property factor multiplied by 5%.
- The payroll factor multiplied by 5%.
- The sales factor multiplied by 90%.

Under the bill, this applies to tax years beginning before January 1, 2006.

For tax years beginning after December 31, 2005, and before January 1, 2008, all of the tax base (subject to the same exceptions) must be apportioned to the State by multiplying the tax base by a percentage that is a sum of all of the following:

- The property factor multiplied by 3.75%.
- The payroll factor multiplied by 3.75%.
- The sales factor multiplied by 92.5%.

In addition, for tax years beginning after December 31, 2007, the bill decreases the percentage applicable to the property and payroll factors to 2.5%, and increases the

percentage applied to the sales factor to 95%. (Under Public Act 325 of 2006, however, the SBT Act will be repealed effective for tax years beginning after December 31, 2007.)

(Under the Act, "tax base" means business income, before apportionment or allocation, even if zero or negative, subject to adjustments. The sales factor is a fraction whose numerator is the total sales of the taxpayer in the State during the tax year, and whose denominator is the total sales of the taxpayer everywhere during the tax year. The payroll and property factors are determined in the same manner as the sales factor.)

MCL 208.45a

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

This bill reduced single business tax revenue an estimated \$8.7 million in FY 2005-06, and will reduce single business tax revenue an estimated \$11.9 million in FY 2006-07 and \$3.3 million in FY 2007-08. All of this loss in single business tax revenue will have an impact on the General Fund/General Purpose budget. This bill has no direct impact on local governments.

Fiscal Analyst: Jay Wortley

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.