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BILL ANALYSIS

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Senate Bill 663 (Substitute S-1 as reported)
Sponsor: Senator Bruce Patterson
Committee: Economic Development, Small Business and Regulatory Reform

Date Completed: 10-11-05

RATIONALE

Payroll is one of the main factors used to determine a company's single business tax (SBT) liability. For most companies, the tax base upon which the SBT is calculated is determined by three principal components: compensation, business income, and additions and subtractions to business income. For companies that provide temporary employees for Michigan's businesses, the inclusion of payroll as a factor in determining SBT liability significantly increases their tax burden, because payroll is often their primary business expense. Under the SBT Act, a taxpayer may reduce its adjusted SBT tax base when more than 63% of that tax base is employee compensation. Some people believe that this deduction should be increased for a large company that provides temporary employees for other businesses.

CONTENT

The bill would amend the Single Business Tax Act to allow a business with more than 1,000 full-time employees located in the State that supplied temporary staffing employees, to reduce its adjusted tax base by up to 50% when employee compensation exceeded 63% of the business's tax base.

The Act imposes a specific tax upon the adjusted tax base of every person with business activity in the State that is allocated or apportioned to the State, at a rate of 1.9%. "Adjusted tax base" means the tax base allocated or apportioned to the State with adjustments, as provided in the Act.

If a business's adjusted tax base exceeds 50% of the sum of gross receipts plus adjustments and apportionments, the adjusted tax base may be reduced by that excess, at the option of the taxpayer. In lieu of that reduction, a person may elect to reduce the adjusted tax base by the percentage that the compensation divided by the tax base exceeds 63%. This deduction may not exceed 37% of the adjusted tax base.

Under the bill, for tax years beginning after December 31, 2005, for a taxpayer that had more than 1,000 full-time equivalent employees located in the State during the tax year and whose primary business was to supply temporary staffing employees, the deduction could not exceed 50% of the adjusted tax base.

MCL 208.31

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

Reportedly, businesses that provide temporary staffing consider the SBT an onerous tax because it, in effect, penalizes them for having a high payroll relative to their other business costs. Apparently, temporary staffing businesses have narrow profit margins and they view their current SBT obligations as a threat to their profitability. According to a provider of temporary staff, the tax contributes 1.5% to the cost of each additional employee in Michigan when compared with the cost of adding an employee in another state. Allowing a large provider of temporary staffing to reduce its adjusted tax base by up to 50% would make it easier for the business to hire more employees by decreasing the tax that must be paid on the compensation of the additional employees.

Opposing Argument

The bill would cut Michigan's SBT tax collection by roughly $3.5 million annually at a time when several other legislative proposals would significantly decrease State SBT revenue. The SBT deduction for temporary staffing businesses should be included in one of those measures so that the cost of the deduction could be considered alongside the costs of the other proposed SBT revisions.

Legislative Analyst: J.P. Finet

FISCAL IMPACT

The bill would reduce State General Fund revenue by an unknown and potentially significant amount. The bill would have no effect on local unit revenue or expenditures. The impact of the bill would depend upon the number of taxpayers, and their specific characteristics, affected by the bill. Because the bill would not change the threshold for qualifying for the deduction (which requires that compensation exceed 63% of the tax base), the bill would affect only firms where compensation exceeded 100% of the tax base. The bill would provide a reduction in liability for firms where compensation was between 100% and 113% of the tax base, although firms where compensation comprised 113% or more of the tax base would qualify for the largest reduction: a 50% reduction in their tax base (and essentially, their liability), compared with a 37% reduction under current law.

Based upon aggregated data for firms that report themselves under the North American Industry Classification System (NAICS) code 36132 (temporary help services), the bill would likely reduce SBT revenue by as much as $350,000 per firm and roughly 10 firms in Michigan could potentially qualify under the bill. Based on these assumptions, the bill could reduce revenue by approximately $3.5 million per year.

This estimate is preliminary and will be revised as new information becomes available.

Fiscal Analyst: David Zin