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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

CONTENT

The bill would amend the Single Business Tax (SBT) Act to allow a business with more than 1,000 full-time employees located in Michigan 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.

Under 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

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 provisions of 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.

Date Completed: 10-6-05

Fiscal Analyst: David Zin

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