

Legislative Analysis



MBT: INSURANCE COMPANIES

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House Bills 5327-5330

Sponsor: Rep. Steve Bieda

Committee: Tax Policy

Complete to 11-6-07

A REVISED SUMMARY OF HOUSE BILLS 5327-5330 AS INTRODUCED 10-18-07

The bills would amend the new Michigan Business Tax Act (MCL 208.1101 et seq.), due to take effect January 1, 2008, to make several changes in the treatment of insurance companies.

House Bill 5327 would allow an insurance company to claim, without current restrictions, the compensation credit found in Section 403 in the same manner as other companies under the act. The compensation credit is equal to 0.37 percent of compensation in the state. The compensation credit and the investment tax credit are both found in Section 403 and must be taken before any other credit and are limited to 65 percent of a firm's tax liability. House Bill 5329 makes a complementary amendment to Section 403.

[Compensation includes wages, salaries, fees, bonuses, and other payments made for the benefit of employees, officers, or directors, and any self-employment net earnings (as defined in the federal Internal Revenue Code).]

Currently the MBT says an insurance company can only claim the compensation credit if it does not make any payments to the Worker's Compensation Placement Facility, the Basic Property Insurance Association, the Automobile Insurance Placement Facility, or the Property and Casualty Guaranty Association. (This means life and health insurance companies are currently eligible for the credit but not property and casualty insurance companies.)

House Bill 5328 addresses the tax base on insurance companies under the MBT. The new act imposes a tax on insurance companies (under Chapter 2A) of 1.25 percent of gross direct premiums written on property or risks located or residing in the state. Certain specified premiums are not included within the term "direct premiums," including premiums on policies not taken, returned premiums on cancelled policies, receipts from the sale of annuities, and receipts from some reinsurance premiums. Under House Bill 5328, "direct premiums" would not include receipts on all reinsurance transactions. (Currently, the act says direct premiums do not include receipts on reinsurance premiums *if the tax has been paid on the original premiums*. That language would be struck.)

House Bill 5330 would allow insurance companies to claim the credit in the MBT allowed other taxpayers for charitable contributions to public broadcasting, public

libraries, colleges and universities, and the Michigan Housing and Community Development Fund.

The credit is for 50 percent of the aggregate contributions made to such organizations; the credit for any tax year could not exceed five percent of tax liability or \$5,000, whichever is less.

The bills would all take effect January 1, 2008, which is the effective date of the Michigan Business Tax Act.

FISCAL IMPACT:

The fiscal impact is being examined, and the summary will be updated as more information becomes available.

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