

Legislative Analysis



"PURCHASES FROM OTHER FIRMS" FOR CONTRACTORS UNDER MICHIGAN BUSINESS TAX

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House Bill 6031 (Substitute H-2)

Sponsor: Rep. Steve Bieda

Committee: Tax Policy

Senate Bill 1217 (Substitute H-2)

Sponsor: Sen. Nancy Cassis

Senate Committee: Finance

House Committee: Tax Policy

Complete to 5-19-08

A SUMMARY OF HOUSE BILL 6031 & SENATE BILL 1217 AS REPORTED FROM HOUSE COMMITTEE

Under one element of the recently enacted Michigan Business Tax, firms are subject to a tax of 0.8 percent on a firm's gross receipts, less its purchases from other firms.

House Bill 6031 and Senate Bill 1217 would both amend the Michigan Business Tax (MBT) Act (MCL 208.1113) to amend the definition of "purchases from other firms" as it applies to general building contractors, heavy construction contractors, and construction special trade contractors that do not qualify for a small business credit under Section 417. For those companies, the definition would apply to "payments for materials deducted as purchases in determining the cost of goods sold for the purpose of calculating total income on the taxpayer's federal income tax return." These payments would, then, not be counted in the gross receipts tax base.

(The bills specifically refer to firms included in Major Groups 15, 16, and 17 under the standard industrial classification code compiled by the U.S. Department of Labor.)

(The small business credit applies to firms with gross receipts of not more than \$20 million and adjusted business income of not more than \$1.3 million; there are also limits on officer income.)

The bills specify that it would be retroactive and effective for taxes levied after December 31, 2007. The two bills, as reported from the House Tax Policy Committee have identical provisions.

[The bills would strike current language that exempts from the gross receipts tax base "payments to subcontractors for a construction project under a contract specific to that project." The new language would replace that provision; exemptions for materials would not be contract-specific under the bills.]

FISCAL IMPACT:

The Department of Treasury testified that its original revenue estimates for the MBT assumed the tax treatment of construction materials provided in these bills.

POSITIONS:

The Department of Treasury testified in support of the bills. (5-14-08)

The Michigan Infrastructure and Transportation Association testified in support of the bills. (5-14-08)

The Michigan Association of Home Builders testified in support of the bills. (5-14-08)

The Associated General Contractors testified in support of the bills. (5-14-08)

The Michigan Plumbing and Mechanical Contractors Association indicated support for the bills. (5-14-08)

Associated Builders and Contractors indicated support for the bills. (5-14-08)

The National Federation of Independent Business (NFIB) indicated support for the bills. (5-14-08)

Legislative Analyst: Chris Couch

■ 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.