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## BILL ANALYSIS

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Senate Bill 1054 (as introduced 1-23-08)  
Sponsor: Senator John Pappageorge  
Committee: Finance

Date Completed: 1-24-08

### **CONTENT**

**The bill would amend the Michigan Business Tax Act to exclude services rendered by a partner to a partnership from the definition of "business activity"; and revise the definition of "business income" for a partnership or S corporation, and for a person conducting investment activity.**

The current definition of "business activity" includes a transfer of title to property and the performance of services made with the object of gain, benefit, or advantage to the taxpayer or others, but does not include services rendered by an employee to his or her employer or services as a director of a corporation. The bill also would exclude services rendered by an individual to a partnership in which he or she is a partner.

"Business activity" currently means that part of Federal taxable income derived from business activity, subject to provisions for specific types of taxpayers. For a partnership or S corporation, business income includes payments and items of income and expense that are attributable to business activity of the partnership or S corporation and separately reported to the partners or shareholders. Under the bill, business income for a partnership or S corporation would include payments and items of income, *less expenses*, attributable to business activity of the partnership or S corporation.

For an individual, estate, partnership organized exclusively for estate or gift planning purposes, or trust organized exclusively for estate or gift planning purposes, business income is that part of Federal taxable income derived from transactions, activities, and sources in the regular course of the taxpayer's trade or business, including specific types of income, gains or losses, personal investment activity, and property dispositions. Under the bill, this definition of business income would apply to an individual, estate, trust organized for estate or gift planning purposes, other person organized for estate or gift planning purposes, or person organized to conduct investment activity that does not conduct a trade or business or conducts investment activity for a trade or business.

MCL 208.1105

Legislative Analyst: Suzanne Lowe

### **FISCAL IMPACT**

The bill would reduce General Fund revenue by an unknown amount. The changes regarding taxpayers engaged in estate planning likely would have a minimal impact. The changes affecting services rendered by members of a partnership could be significant; however, it is unclear whether this revenue was included in the original estimates for Michigan business tax revenue.

The bill would have no fiscal impact on local government.

Fiscal Analyst: David Zin

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