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Senate Bill 1217 (Substitute S-1 as reported by the Committee of the Whole) *(as enacted)*  
Sponsor: Senator Nancy Cassis  
Committee: Finance

## **CONTENT**

The bill would amend the Michigan Business Tax (MBT) Act to include in the definition of "purchases from other firms", for certain builders and contractors, payments for materials deducted as purchases in determining the cost of goods sold for the purpose of calculating total income on a taxpayer's federal income tax return.

Except as otherwise provided, the Act imposes a modified gross receipts tax on every taxpayer with nexus in the State. The tax is imposed on the modified gross receipts tax base, after allocation or apportionment to the State at a rate of 0.8%. The tax base is a taxpayer's gross receipts less purchases from other firms before apportionment. The definition of "purchases from other firms" includes, for a person included in Major Groups 15, 16, and 17 under the Standard Industrial Classification Code as compiled by the U.S. Department of Labor that does not qualify for a credit under Section 417, payments to subcontractors for a construction project under a contract specific to that project.

Under the bill, "purchases from other firms" also would include 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. This would apply to the extent the payments were not deducted under provisions allowing deductions for materials and supplies, including repair parts and fuel, and inventory acquired during the tax year, including freight, shipping, delivery, or engineering charges included in the original contract price for that inventory.

The bill would be retroactive and effective for taxes levied after December 31, 2007.

(Major Groups 15, 16, and 17 include general building contractors, heavy construction contractors, and construction special trade contractors.

Section 417 allows a credit against the MBT for any taxpayer with gross receipts that do not exceed \$20.0 million and with adjusted business income minus the loss adjustment that does not exceed \$1.3 million as adjusted annually for inflation.)

MCL 208.1113

Legislative Analyst: Craig Laurie

## **FISCAL IMPACT**

The data needed to make a reasonable estimate of the fiscal impact of this bill are not available. Therefore, an estimate of the fiscal impact of this bill cannot be made at this time.

Date Completed: 4-21-08

Fiscal Analyst: Jay Wortley