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BILL ANALYSIS

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House Bill 5408 (Substitute H-1 as passed by the House)
Sponsor: Representative Andy Coulouris
House Committee: Tax Policy

CONTENT

The bill would amend the Michigan Business Tax (MBT) Act to do the following:

- **Impose an annual surcharge on taxpayers equal to a percentage of their MBT liability.**
- **Repeal Section 3d of the Use Tax Act (which extends the use tax to certain services) immediately after it takes effect on December 1, 2007.**
- **Increase the amount of MBT revenue earmarked to the School Aid Fund for fiscal years 2007-08 and 2008-09 (as described in FISCAL IMPACT).**
- **Increase the amount of total MBT revenue that will trigger refunds to taxpayers and deposits into the Budget Stabilization Fund; and provide for a taxpayer's refund to be based on the amount of its surcharge in proportion to the surcharge imposed on all MBT payers.**
- **Extend to financial institutions a credit equal to 0.37% of compensation in the State.**
- **Increase the amount of a credit available to certain eligible taxpayers (meeting criteria regarding retail and warehouse space, and the sale of specified retail products).**

The bill would take effect on January 1, 2008 (the effective date of the MBT Act), and would apply to all business activity occurring after December 31, 2007.

Under the bill, in addition to the taxes imposed and levied under the MBT Act, an annual surcharge would be imposed and levied on each taxpayer equal to the following percentage of the taxpayer's MBT liability after allocation or apportionment to the State but before calculation of the various credits available under the Act:

- For each taxpayer other than a financial institution, for tax years ending after December 31, 2007, and before January 1, 2009: 32.9%.
- For each taxpayer other than a financial institution, for tax years ending after December 31, 2008: 27.3%.
- For a financial institution, for tax years ending after December 31, 2007, and before January 1, 2009: 27.7%.
- For a financial institution, for tax years ending after December 31, 2008: 23.4%.

The amount of the surcharge imposed on a financial institution could not exceed $2.0 million for any single tax year.

The surcharge would not apply to an insurance company.

MCL 208.1265 et al. Legislative Analyst: Craig Laurie

FISCAL IMPACT

The Department of Treasury estimates that the bill would reduce General Fund revenue by $56.3 million in FY 2007-08 and increase FY 2008-09 revenue by $55.9 million.

As originally enacted, the MBT Act earmarks $136.0 million of MBT revenue to the School Aid Fund (SAF) in FY 2007-08 and $479.0 million in FY 2008-09. These earmarkings are intended to reimburse the SAF for the loss in property tax revenue that will result from the new personal property tax exemptions that are part of the MBT. Under this bill, the amount of MBT revenue earmarked to the School Aid Fund would increase to hold the SAF harmless from the impact of the repeal of the use tax on services. Under the services use tax, the SAF will receive one-third of the total revenue generated and it is estimated that the SAF share will equal $205.0 million in FY 2007-08 and $250.0 million in FY 2008-09. Therefore, this bill would increase the amount earmarked to the SAF by $205.0 to $341.0 million in FY 2007-08 and by $250.0 million to $729.0 million in FY 2008-09. As under current law, in subsequent fiscal years, the amount earmarked to the SAF would be increased from the prior fiscal year's level by the percentage change in the U.S. Consumer Price Index.

Date Completed: 11-20-07

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