Legislative Analysis

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REDUCE MBT REVENUE TO SCHOOL AID FUND
TO OFFSET NEW SAF TAX REVENUE FROM USE TAX

Senate Bill 480 as introduced
Sponsor: Sen. Roger Kahn, M.D.
House Committee: Tax Policy
Senate Committee: Appropriations

Complete to 7-21-09

A SUMMARY OF SENATE BILL 480 AS PASSED BY THE SENATE 5-14-09

Senate Bill 480 would amend the Michigan Business Tax Act to reduce the amount of MBT revenue credited to the School Aid Fund (SAF) each fiscal year by the amount of revenue credited to the SAF from the new use tax on medical services provided by Medicaid managed care organizations imposed under Section 3f of the Use Tax Act (MCL 205.93f). This applies for each fiscal year beginning after the 2007-08 fiscal year. This means that some MBT revenue that otherwise would go to the School Aid Fund would instead go the General Fund.

The new use tax on medical services was added by Public Act 440 of 2008 (HB 5192). Public Act 440 imposed the use tax, effective April 1, 2009, to replace prior Medicaid provider taxes that expire in 2009 due to changes in federal law.

The new use tax is intended to support Medicaid-funded services. However, revenue from the 6% use tax is constitutionally earmarked to the School Aid Fund (2%) and the General Fund (4%).[1] Because of these constitutional restrictions, in order to ensure that revenue from the use tax is used for its intended purposes (Medicaid costs), SB 480 offsets the increase in SAF revenue under PA 440 with a decrease in SAF revenue under the MBT Act. The net effect is an increase in GF/GP revenue under the MBT Act.

FISCAL IMPACT:

This bill would reduce the MBT earmark to the School Aid Fund (SAF) to offset the constitutionally dedicated earmark of the Use tax that occurred with Public Act 440 of 2008. This bill would increase General Fund/General Purpose (GF/GP) revenue and decrease SAF revenue by an estimated $53.8 million in FY 2008-09 and by $111.6 million in FY 2009-10. The increase in GF/GP revenue could then be appropriated to support Medicaid services, which was the intent of the Public Act 440 of 2008. However, the May consensus revenue estimates and the Executive Budget reflect the provisions in this bill; therefore, there is no net change to GF/GP or SAF revenue.

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[1] See Article IX, Section 8 of the State Constitution, and Section 21 of the Use Tax Act of 1937, MCL 205.111.