

Legislative Analysis



REDUCE BAD DEBT DEDUCTION

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House Bills 5417 & 5418

Sponsor: Rep. Alma Wheeler Smith

Committee: Tax Policy

Complete to 4-20-10

A SUMMARY OF HOUSE BILLS 5417 & 5418 AS INTRODUCED 9-17-09

The bills would reduce the bad debt deduction available to sellers in the sales and use tax acts from 100 percent to 80 percent. This would apply for months beginning after September 30, 2009.

Under both the Use Tax Act and the General Sales Tax Act, firms are allowed a deduction for the amount of bad debt incurred. Generally, bad debt is any debt that has become worthless and uncollectible and is charged off as such on the books and records of the seller. To qualify for the deduction, the bad debt must be eligible to be a deduction for federal income tax purposes under the federal Internal Revenue Code.

House Bill 5417 would amend the Use Tax Act (MCL 205.99a). House Bill 5418 would amend the General Sales Tax Act (MCL 205.41i).

FISCAL IMPACT:

The bills would increase sales and use tax revenue by an estimated \$11.5 million. Sales and use tax revenue constitutionally earmarked to the School Aid Fund would increase by \$8.5 million while General Fund revenue would increase by \$3.0 million.

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