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BILL ANALYSIS

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Senate Bill 962 (as reported without amendment) *(as enacted)*
Sponsor: Senator Tom George, M.D.
Committee: Finance

Date Completed: 4-21-10

RATIONALE

Under the Michigan Business Tax Act, taxpayers are subject to a modified gross receipts tax, as well as a business income tax. The modified gross receipts tax is imposed at the rate of 0.8% on a taxpayer's gross receipts, subject to certain adjustments. Gross receipts include the amount a taxpayer received from any activity in intrastate, interstate, or foreign commerce carried on for direct or indirect benefit to the taxpayer or others. Evidently, the gross receipts tax is having a singular impact on a company that provides management services to hospitals and hospital systems, Accretive Health. Due to the way its contracts are structured, Accretive Health essentially reimburses its clients most of the amounts it receives from them, which the company calls its base fee, but is required to include the entire amounts in its gross receipts. It has been suggested that Accretive Health should be allowed a deduction from its gross receipts for the amount it pays back to its clients, similar to the deduction that temporary staffing agencies may take for amounts they pay workers provided to their clients.

CONTENT

The bill would amend the Michigan Business Tax Act to exclude from the definition of "gross receipts", for a taxpayer that provides health care management consulting services, amounts the taxpayer received as fees from its clients and spent to reimburse those clients for labor and nonlabor services that are paid by the clients and reimbursed to them pursuant to a services agreement.

MCL 208.1111

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

Accretive Health is a one-of-a-kind health care company that assists hospitals and hospital systems to become more efficient and effective in the marketplace. Founded in 2003 and based in Chicago, the company uses a multifacted approach to improve the revenue cycle performance of hospital administration, ranging from preadmission, scheduling, and admissions; to medical records and coding; to billing, collections, and contractual compliance. In 2008, Accretive Health (formerly named Healthcare Services, Inc.) received an incentive from the Michigan Economic Growth Authority to bring jobs to this State. The company currently has approximately 600 employees in Michigan, serving clients in both this and other states, and hopes to increase that number to 3,000 in the near term. Its Michigan clients include Borgess Medical Center, Henry Ford Health System, Genesys Health System, St. John Health System, and St. Mary's Health Care.

The Michigan Business Tax Act imposes an undue burden on Accretive Health by essentially requiring it to account for a hospital's or hospital system's gross receipts as its own. According to Accretive Health, its contracts with a hospital are structured in such a way that its revenue is created and billed to the client hospital in the form of a base fee. The initial base fee in the first year of the contract is the sum all of the existing administrative costs the hospital incurred in the prior year. Those administrative costs include hospital employee wages, payroll taxes and benefits, and payments to various third party contractors of the hospital. Accounting rules require Accretive Health to include the entire base fee in its revenue, since the company takes over the management of the related departments at the hospital. Since the hospital employees remain on the payroll of the hospital, however, Accretive Health is required by the contract to reimburse the hospital for the payroll costs, as well as for the third party contractors that are still paid directly by the hospital. Accretive Health recognizes no benefit from the portion of its revenue that is subsequently reimbursed to the client, but is not presently allowed to deduct those amounts from its revenue for purposes of the modified gross receipts tax.

Other types of taxpayers are not subject to the same tax treatment. Staffing agencies also invoice their clients for the cost of the workers the agencies provide, but they can take a deduction for what they pay those employees. A financial planner might manage assets for various retirement accounts but pays the tax only on the fees associated with the management of the funds, not on the total value of the funds managed. Similarly, a real estate agent is taxed on fees associated with the sale of property, not on the total value of the transaction.

According to testimony submitted to the Senate Finance Committee on behalf of Accretive Health, most of its Michigan employees work in "shared service centers", and their jobs could easily be relocated to another state if the company's business tax burden is not mitigated. The bill would help keep those jobs in Michigan, and encourage Accretive Health to carry out its plan to expand employment in this State, by making an exception to the definition of "gross receipts" that would accommodate the company's unique circumstances. In effect, the bill would limit Accretive Health's tax liability to its own actual revenue, net of client reimbursements and third party expenses paid by the company on behalf of its clients. The proposed deduction would be similar to those already allowed by the Act.

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would reduce General Fund revenue by an unknown amount, depending upon several factors including the number of firms affected, the volume of business activity affected by the bill, and the interaction with other provisions of the Act. Michigan gross receipts in the sector that includes health care management consulting services likely exceed $2.0 billion, although it is unknown what share of those receipts would be affected by the bill because the sector includes firms that do not engage in health care management consulting and some firms in the sector may not have receipts affected by the bill. Based on testimony, the revenue reduction would be approximately $1.0 million.

Fiscal Analyst: David Zin

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