



Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bill 653 (Substitute S-1 as reported)
Senate Bill 666 (Substitute S-1 as reported)
Senate Bill 678 (Substitute S-1 as reported)
Sponsor: Senator Jack Brandenburg (S.B. 653)
Senator John Pappageorge (S.B. 666)
Senator John Proos (S.B. 678)
Committee: Finance

CONTENT

The bills would amend Part 2 of the Income Tax Act, which governs the Corporate Income Tax, to provide for a person to be treated as a disregarded entity if that was how the person filed under Federal law. The bills would take effect on January 1, 2012.

Senate Bill 653 (S-1) would amend the definition of "flow-through" entity to exclude any entity disregarded under Section 699 (which Senate Bill 678 (S-1) would add). A "flow-through entity" is entity that is treated as a subchapter S corporation under the Internal Revenue Code (IRC), a general or limited partnership, a trust, or a limited liability partnership or company, that for the tax year is not taxed as a corporation for Federal income tax purposes.

Senate Bill 605 (S-1) would delete the definition of "disregarded entity", which refers to a qualified subchapter S subsidiary under a specific section of the IRC or a single member limited liability company that has not elected to be classified as a corporation under a particular Federal regulation.

Senate Bill 678 (S-1) would add Section 699 to state that, notwithstanding any other provision of the Act, a person that was a disregarded entity for Federal income tax purposes under the IRC would have to be classified as a disregarded entity for purposes of Parts 2 and 3 of the Act. (Part 3 prescribes withholding requirements that apply to flow-through entities and others.)

MCL 206.607 (S.B. 653)
206.605 (S.B. 666)
Proposed MCL 206.699 (S.B. 678)

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bills would have an indeterminate effect of unknown magnitude on General Fund revenue, although any potential change in revenue is likely already reflected in the revenue estimates for the recently enacted Corporate Income Tax. The bills would affect the treatment of corporations disregarded for Federal income tax purposes.

Date Completed: 11-14-11

Fiscal Analyst: David Zin