



Senate Fiscal Agency
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BILL



ANALYSIS

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Senate Bill 1006 (as reported without amendment)
Sponsor: Senator Mark C. Jansen
Committee: Finance

CONTENT

The bill would amend the Michigan Business Tax Act to revise the definition of "purchases from other firms" as it pertains to payments to subcontractors for a construction contract and payments for certain materials, by limiting the deduction to taxpayers that did not *claim* the small business credit for a tax year, rather than those that did not qualify for the credit. The bill would apply retroactively for taxes levied after December 31, 2007.

The Act imposes a modified gross receipts tax. The modified gross receipts tax base is a taxpayer's gross receipts less purchases from other firms before apportionment. For a person included in major group 15, 16, or 17 under the Standard Industrial Classification Code that does not qualify for the small business credit, "purchases from other firms" includes payments to subcontractors for a construction project, and payments for materials deducted as purchases in determining the cost of goods sold for the purpose of calculating total income on the taxpayer's Federal income tax return.

Under the bill, this would apply to a person included in major group 15, 16, or 17 that does not claim the small business credit for the same tax year (rather than a person that does not qualify for the credit). (Major groups 15, 16, and 17 include general contractors and operative builders; infrastructure construction contractors and heavy builders; and special trade contractors, such as carpenters and plumbers.)

MCL 208.1113

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would reduce the State's General Fund revenue by an unknown amount and would have no impact on local government. The bill would affect firms that could qualify for the small business credit but did not claim the credit. To qualify for the small business credit a firm must have gross receipts of less than \$20.0 million, and meet other requirements, including certain maximums on shareholder and officer income. A firm near the maximums allowed for the credit would exhibit a maximum Michigan Business Tax liability of approximately \$300,000. Most firms that qualify for the credit claim it because it allows the taxpayer to avoid the gross receipts portion of the tax, pay a modified income tax that is approximately 70% less than the firm would pay absent the credit, and avoid the impact of the surcharge. As a result, few taxpayers are expected to be affected by the bill and the per-taxpayer impact of the bill would likely be less than \$300,000.

Due to the retroactivity provisions, the bill's impact could amount to several millions of dollars even if only a dozen taxpayers were affected. Most of the impact would affect FY 2012-13 revenue, as taxpayers filed amended returns as a result of the bill.

Date Completed: 9-20-12

Fiscal Analyst: David Zin