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BILL



ANALYSIS

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Senate Bill 1006 (as introduced 3-6-12)  
Sponsor: Senator Mark C. Jansen  
Committee: Finance

Date Completed: 6-6-12

### **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 Act imposes a modified gross receipts tax on taxpayers with nexus. 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 a credit under Section 417 (called the small business credit), "purchases from other firms" includes the following:

- Payments to subcontractors for a construction project under a contract specific to that project.
- To the extent not deducted as inventory or assets acquired during the tax year, 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 a credit under Section 417 for the same tax year (rather than a person that does not qualify for the credit).

(Major group 15 includes general contractors and operative builders. Major group 16 includes infrastructure construction contractors and heavy builders. Major group 17 includes special trade contractors, such as carpenters and plumbers.)

The bill states a legislative intent that "this amendatory act clarify that a person described under section 113(6)(e) [the section the bill would amend] of the Michigan business tax act...is only prohibited from deducting those purchases from other firms if that person actually claimed a credit under section 417...". The bill would require the amendment to be retroactively applied and effective for taxes levied after December 31, 2007.

MCL 208.1113

Legislative Analyst: Suzanne Lowe

## **FISCAL IMPACT**

The bill would reduce General Fund revenue by an unknown amount. 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. Furthermore, the majority of the impact of the bill would affect FY 2012-13 revenue, as taxpayers filed amended returns as a result of the bill.

The bill would not affect local unit revenue or expenditure.

Fiscal Analyst: David Zin

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.