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BILL ANALYSIS

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House Bill 4436 (Substitute H-1 as passed by the House)
Sponsor: Representative John Walsh
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 2-22-12

CONTENT

The bill would amend the Use Tax Act to allow an alternative accelerated payment schedule for taxpayers whose liability in the previous year was $720,000 or more; the bill would allow such a taxpayer to pay, by the 20th day of each month, 75% of its liability in the previous month plus a reconciliation payment.

The Act typically requires taxpayers, by the 20th day of each month, to file with the Department of Treasury a return for the preceding month, and pay the amount due. Taxpayers are subject to an accelerated payment schedule, however, if their total tax liability in the previous year was $720,000 or more, after subtracting tax payments made to the Secretary of State under the Act or the General Sales Tax Act or after subtracting tax credits available under Section 6a of that Act (which requires taxpayers that purchase gasoline from a refiner or a terminal operator to prepay a portion of their sales tax to the refiner or the terminal operator, and allows them to claim an estimated prepayment credit). A taxpayer that meets the $720,000 threshold, by the 20th day of the month and by the last day of the month, must remit an amount equal to 50% of the taxpayer's liability for the same month in the prior year or 50% of the actual liability for the month being reported, whichever is less. Also, by the 20th day of the month, the taxpayer must make a reconciliation payment equal to the difference between the tax liability determined for the preceding month and the amount of tax previously paid for that month.

Under the bill, beginning July 1, 2011, a taxpayer that had a total tax liability in the previous year of $720,000 or more (after the subtractions described above) could remit, by the 20th day of the month, an amount equal to 75% of the taxpayer's use tax liability in the preceding month, plus a reconciliation payment equal to the difference between the tax liability determined for that month minus the amount previously paid for that month. The payment could include any amount due under Section 6 of the General Sales Tax Act (which also contains an accelerated payment schedule for taxpayers meeting the liability threshold).

As currently required, the payment would be made by an electronic funds transfer method approved by the Department.

MCL 205.56 Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would alter the timing of use tax receipts. The bill would allow taxpayers with an annual use tax liability, after subtracting sales and use taxes on motor vehicles, of $720,000 or more, to remit their monthly tax payments according to a different formula. Currently, such taxpayers are required to remit 50% of either the liability in the same month one year ago, or the liability for the current month, plus a reconciliation amount for the prior month's liability by the 20th of each month; with the remaining 50% of either the liability in the same month one year ago, or the liability for the current month, due at the end of the month. The bill would allow taxpayers an option of remitting 75% of the prior month's liability, plus a reconciliation payment for the prior month, by the 20th of the month. The bill would eliminate the subsequent payment due at the end of the month.

While the bill would not affect the total liability, it would affect the timing of payments. Approximately 25% of collections from affected taxpayers would be received 10 days earlier, while the remaining portion would be received 20 days later. The State earns interests on its cash balances and the bill would increase the interest earnings on the accelerated portion, and reduce interest earnings on the reconciliation portion. The net impact would roughly equate to 10 days' interest on 25% of collections (a total of approximately $25.0 million per month if all taxpayers were affected) from affected taxpayers in the initial month the bill was effective. The impact is unknown, but given current interest rates, would likely be minimal or negligible.

Fiscal Analyst: David Zin

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