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BILL ANALYSIS

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Senate Bill 155 (as reported without amendment)
Sponsor: Senator Vincent Gregory
Committee: Finance

CONTENT

The bill would amend Part 2 of the Income Tax Act, which provides for the Corporate Income Tax, to allow a qualified taxpayer (a taxpayer with fewer than 100 full-time employees) to claim a credit for each qualified employee during the tax year, equal to 25% of the compensation paid during the tax year to the employee or $4,000, whichever was less. The credit would apply for tax years beginning on and after January 1, 2015.

The bill would define "qualified employee" as an individual who satisfies each of the following:

-- Is a veteran who has served at least 180 days on active duty or has a service-connected disability (as defined in Federal law).
-- Is currently unemployed and certifies that he or she has not held a full-time job during the 60-day period before beginning employment with the qualified taxpayer.
-- Is not employed by the qualified taxpayer to replace another employee of that taxpayer unless the other employee separated from employment voluntarily or for cause.
-- Is not a relative or dependent of an individual who owns, directly or indirectly, more than 50% in value of the outstanding stock of the qualified taxpayer, or, if the taxpayer is an entity other than a corporation, is not a relative or dependent of any individual who owns, directly or indirectly, more than 50% of the capital and profits in the entity.

"Veteran" would mean a person who served in the active military, naval, marine, Coast Guard, or air service and who was discharged or released from his or her service with an honorable or general discharge. For purposes of the bill, "taxpayer" would include a financial institution and an insurance company.

If the credit allowed for a tax year and any unused carryforward of the credit exceeded the qualified taxpayer's tax liability for the tax year, the excess could not be refunded but could be carried forward as an offset to the tax liability in subsequent tax years, for five years or until the excess was used up, whichever occurred first.

If a taxpayer terminated the employment of a qualified employee for whom a credit was claimed within one year after hiring the employee, the Department of Treasury could reduce or terminate the credit or have a percentage of the amount already claimed added back to the taxpayer's tax liability in the tax year in which the employee was terminated.

MCL 206.672 Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would reduce General Fund revenue by an unknown amount that would depend on the number of individuals and businesses affected and the specific financial characteristics of affected businesses. In Michigan, corporations with fewer than 100 employees employ approximately 755,000 individuals, or about 21.3% of employees, and the average payroll for each of these employees is $44,600. Approximately 600,000 veterans live in Michigan, and approximately 289,000 participate in the Michigan labor force. The 2014 unemployment rate among Michigan veterans was 6.3% (below the average nonveteran unemployment rate of 7.0%). Nationally, only 23.9% of corporations report sufficient net income subject to tax that would enable them to fully claim the credit. This analysis assumes that employers that are not subject to the Michigan Corporate Income Tax, such as S-corporations, partnerships, and other so-called "pass-through" organizations, would not be able to claim the credit.

Based on the average payroll costs, the $4,000 maximum credit would appear to apply for most veterans affected by the bill. The number of individuals who could potentially be affected by the bill is unknown because the number of unemployed Michigan veterans who have been unemployed for at least 180 days is unknown, and while nationally the unemployment rate for veterans who exhibit a service-connected disability is 5.9%, the bill also would apply to nondisabled individuals. It is also unknown how many of these individuals would obtain employment from a qualified taxpayer.

If all of the approximately 18,000 unemployed Michigan veterans met the definition of qualified employee and were hired by a qualified taxpayer under the bill's provisions, the bill would reduce revenue by as much as $72.0 million per year if all of the affected taxpayers were able to claim the entire credit. If only 21.3% of the unemployed veterans were hired by a qualified taxpayer, the potential impact would be reduced to approximately $15.3 million per year. Because most taxpayers would not be expected to claim the entire credit and would need to carry the credit forward, the actual revenue loss would likely be less.

The credit would not be expected to have a significant effect on total employment; however, by effectively lowering the net cost of employing a veteran by approximately 10% relative to the cost of hiring a nonveteran, the bill would be expected to affect the choice between hiring a veteran and a nonveteran.

Date Completed: 10-14-15 Fiscal Analyst: David Zin

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