



Senate Fiscal Agency
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BILL



ANALYSIS

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House Bill 5131 (as reported without amendment)
Sponsor: Representative Jeff Farrington
House Committee: Tax Policy
Senate Committee: Finance

CONTENT

The bill would amend the Income Tax Act to discontinue requirements that flow-through entities withhold tax. The bill also would revise the description of income that must be withheld and, with respect to the individual income tax, would amend the definition of "income".

Part 3 of the Act prescribes withholding requirements for flow-through entities, employers, and others. A flow-through entity (e.g., a partnership, S corporation, or limited liability company) is required to withhold a tax from members' distributive share of income, according to calculations set forth in the Act. For a nonresident member who is an individual, a flow-through entity must withhold a tax from the distributive share of taxable income. If a flow-through entity with business activity in Michigan has more than \$200,000 of business income expected to accrue in the tax year after allocation or apportionment, it is required to withhold a tax from the distributive share of the business income of each member that is a corporation or a flow-through entity; a member of that flow-through entity that is a flow-through entity itself also must withhold a tax on the distributive share of business income of each of its members. Under the bill, these withholding requirements would apply to tax years beginning before July 1, 2016.

Part 1 of the Act provides for the individual income tax and defines "taxpayer" as any person subject to taxes imposed by Part 1, any employer required to withhold taxes on salaries and wages, or any flow-through entity required to withhold taxes on a nonresident member's share of income available for distribution. The bill, instead, would define "taxpayer" as any person subject to the taxes imposed by Part 1 or subject to the withholding requirements under Part 3.

The bill would take effect on July 1, 2016.

MCL 206.22

Legislative Analyst: Drew Krogulecki

FISCAL IMPACT

The bill would have little to no impact on State revenue. Because the bill would not affect the liabilities taxpayers face under the Act but would affect only the withholding requirements, any impact of the bill would reflect changes in when payments are received by the State. The bill would have no impact on local units of government.

Date Completed: 4-21-16

Fiscal Analyst: David Zin