



Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL



ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986

House Bill 4502 (as passed by the House)
Sponsor: Representative James A. Lower
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 10-2-17

CONTENT

The bill would amend the Income Tax Act to exempt from the Corporate Income Tax a person that was a self-insurer group operating under an agreement under the Worker's Disability Compensation Act to pool liabilities under that Act.

Part 2 of the Income Tax Act imposes the Corporate Income Tax (CIT) on every taxpayer with business activity within Michigan or ownership interest or beneficial interest in a flow-through entity that has business activity in the State unless otherwise prohibited. A taxpayer subject to the CIT is a corporation, financial institution, insurance agency, or unitary business group.

The Act specifies entities that are exempt from the CIT. The bill also would exempt a person that was a self-insurer group operating under an agreement entered under Section 611(2) of the Worker's Disability Compensation Act.

(Section 611(2) of the Act allows, under procedures and conditions determined by the director of the Workers' Compensation Agency, two or more employers in the same industry with combined assets of \$1.0 million or more, or two or more public employers of the same type of unit, to be permitted by the Director to enter into agreements to pool their liabilities under the Act for the purpose of qualifying as self-insurers.)

The bill would take effect 90 days after its enactment.

MCL 206.625

BACKGROUND

In 2016, the Department of Treasury issued a Letter Ruling that determined that self-insurer group funds authorized under Section 611(2) of the Worker's Disability Compensation Act are not subject to tax as corporations, insurance companies, or financial institutions, and concluded that self-insurer group funds are not subject to the Corporate Income Tax. (A Letter Ruling is a formal document issued by the Department to a taxpayer on one or more specific tax matters.)

Legislative Analyst: Drew Krogulecki

FISCAL IMPACT

The bill should have little to no impact on State General Fund revenue. To the extent that self-insured worker's compensation groups are not organized as corporations, such groups

are already exempt from the Corporate Income Tax. Similarly, such groups are not regulated as insurance companies or banks, and thus are not subject to insurance taxes or the tax on financial institutions. However, to the extent that any groups were organized as corporations, the bill would reduce Corporate Income Tax revenue to the General Fund from those groups. However, it is expected that any such impact would be minimal.

Fiscal Analyst: David Zin

SAS\S1718\s4502sa

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.