

Legislative Analysis



CONVERTING TELEPHONE CORPORATIONS INTO LLCs

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Senate Bills 982 (S-1) and 984 as reported from House committee
Sponsor: Sen. Sam Singh

Analysis available at
<http://www.legislature.mi.gov>

Senate Bill 983 as reported as reported from House committee
Sponsor: Sen. Dan Lauwers

Senate Bill 1050 as reported as reported from House committee
Sponsor: Sen. Sarah Anthony

House Committee: Government Operations
Senate Committee: Regulatory Affairs
Complete to 11-13-24

(Enacted as Public Acts 174 to 177 of 2024)

SUMMARY:

Senate Bill 982 would amend 1883 PA 129, which regulates the organization of telephone and messenger companies.

The bill would add a new section to allow a telephone corporation formed under the act to convert into a domestic limited liability company (LLC) if the corporation satisfies the requirements applicable to a *business organization* under the Michigan Limited Liability Company Act.

Business organization would mean a domestic or foreign corporation, domestic or foreign nonprofit corporation, limited partnership, general partnership, or any other type of domestic or foreign business enterprise, incorporated or unincorporated, except a domestic limited liability company.

Specifically, the Michigan Limited Liability Company Act allows a business organization to convert into a domestic LLC if all of the following requirements are met:¹

- The conversion is permitted by the law that governs the internal affairs of the business organization, and the business organization complies with that law in converting.
- The business organization proposing to convert into a domestic LLC adopts a plan of conversion that includes all of the following:
 - The name of the business organization, the type of business organization that is converting, identification of the statute that governs the internal affairs of the business organization, the name of the surviving domestic LLC into which the business organization is converting, the street address of the surviving domestic LLC, the street address of the business organization if different from that of the surviving domestic LLC, and the principal place of business of the surviving domestic LLC.
 - The terms and conditions of the proposed conversion, including the manner and basis of converting the ownership interests of the business organization

¹ <https://www.legislature.mi.gov/Laws/MCL?objectName=MCL-450-4709>

into membership interests of the surviving domestic LLC, into cash, into other consideration that may include ownership interests or obligations of an entity that is not a party to the conversion, or into a combination of cash and other consideration.

- The terms and conditions of the articles of organization that are to govern the surviving domestic LLC.
 - Any other provisions with respect to the proposed conversion that the business organization considers necessary or desirable.
- If a plan of conversion is adopted by the business organization as described above, the plan of conversion is submitted for approval in the manner required by the law governing the internal affairs of that business organization.
- If the plan of conversion is approved, the business organization executes as provided in section 103 of the Michigan Limited Liability Company Act and files a certificate of conversion with the director of the Department of Licensing and Regulatory Affairs (LARA). The certificate of conversion must include all of the following:
 - The name of the business organization, the type of business organization that is converting, identification of the statute that governs the internal affairs of the business organization, the name of the surviving domestic LLC into which the business organization is converting, the street address of the surviving domestic LLC, the street address of the business organization if different from the street address of the surviving domestic LLC, and the principal place of business of the surviving domestic LLC.
 - The terms and conditions of the proposed conversion, including the manner and basis of converting the ownership interests of the business organization into membership interests of the surviving domestic LLC, into cash, into other consideration that may include ownership interests or obligations of an entity that is not a party to the conversion, or into a combination of cash and other consideration.
 - A statement that the business organization has obtained approval of the plan of conversion as required by the act.
 - A statement that the surviving domestic LLC will furnish a copy of the plan of conversion, on request and without cost, to any owner of the business organization.
 - A statement specifying each assumed name of the business organization that the surviving domestic LLC is authorized to continue to use under section 206 of the act.
 - Articles of organization for the surviving domestic LLC that meet all of the requirements of the act applicable to articles of organization.

The bill also provides that a telephone corporation that converts into a domestic LLC is treated as a corporation for state income tax purposes, unless the entity is a disregarded entity² for federal income tax purposes and its regarded owner is treated as a corporation for both state and federal income taxes.

Proposed MCL 484.7

² <https://www.wolterskluwer.com/en/expert-insights/what-is-a-disregarded-entity>

Senate Bills 983, 984 and 1050 would make the following complementary changes:

SB 983 would amend the Michigan Limited Liability Company Act to include telephone corporations formed under 1883 PA 129 in the definition of *business organization* (see above).

SB 984 would amend the Business Corporation Act to provide that the act does not prevent a telephone corporation from converting into a domestic LLC under SB 982.

SB 1050 would amend the Income Tax Act to provide that a telephone corporation that is converted into a domestic LLC under SB 982 is treated as a corporation for state income tax purposes, unless that entity is a disregarded entity and the owner is treated as a corporation for state and federal tax purposes, as described above.

SB 983: MCL 450.4705a

SB 984: MCL 1123

SB 1050: MCL 206.12 et seq.

BRIEF DISCUSSION:

According to committee testimony, as AT&T has been in the process of converting its various state companies into one LLC, it was discovered that Michigan law currently prohibits them from doing so in the state. The bills are intended to remedy this and provide AT&T and other companies organized under 1883 PA 129 the same opportunity afforded to businesses organized under other laws.

FISCAL IMPACT:

Taken together, the bills would have no fiscal impact on state or local government revenues or costs. If an eligible taxpayer converted to an LLC under the provisions of the bills, Senate Bill 1050 would ensure that the taxpayer would continue to be treated as a corporation for tax purposes.

POSITIONS:

Representatives of AT&T testified in support of the bills. (11-13-24)

The Department of Licensing and Regulatory Affairs indicated a neutral position on the bills. (11-13-24).

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations and does not constitute an official statement of legislative intent.