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Senate Bill 982 (Substitute S-1 as passed by the Senate)
Senate Bills 983, 984, and 1050 (as passed by the Senate)
Sponsor: Senator Sam Singh (S.B. 892 & 894)
Senator Dan Lauwers (S.B. 893)
Senator Sarah Anthony (S.B. 1050)
Committee: Regulatory Affairs

Date Completed: 12-20-24

CONTENT

Senate Bills 982 (S-1) through 984 would respectively amend Public Act (PA) 129 of 1883, which regulates telephone and messenger services, the Michigan Limited Liability Company Act, and the Business Corporation Act, to allow a telephone company to convert to a limited liability company (LLC). Senate Bill 1050 would amend the Income Tax Act to require such a converted LLC to be treated as a corporation.

Senate Bill 982 (S-1)

The bill would add Section 7 to PA 129 of 1883 to specify that a telephone corporation formed under the Act could convert into a domestic LLC if the telephone corporation satisfied the requirements applicable to the conversion of a business organization into a domestic LLC under the Michigan Limited Liability Company Act, as proposed to be amended by Senate Bill 983.

Additionally, the bill specifies that a telephone corporation that converted into a domestic limited liability company under the bill would be treated as a corporation for State income tax filing purposes, unless the converted entity was a disregarded entity for Federal income tax filing purposes under the Internal Revenue Code and its regarded owner was treated as a corporation for State and Federal income tax purposes.

Senate Bill 983

The bill would amend the Michigan Limited Liability Company Act to include a telephone corporation under the definition of "business organization". Currently, the Act defines "business organization" as 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.

Senate Bill 984

The bill would amend the Business Corporation Act to specify that the Act would not prevent a telephone corporation organized under PA 129 of 1883 from converting into a domestic limited liability company under the Michigan Limited Liability Company Act.

Senate Bill 1050

The bill would amend the Income Tax Act to require that a person that converted to an LLC be treated as a corporation for purposes of the Act unless that converted entity was a

disregarded entity for Federal income tax filing purposes under the and its regarded owner was treated as a corporation for State and Federal income tax purposes.

The bills are tie-barred.

MCL 484.7 et al (S.B. 982)
450.4705a (S.B. 983)
450.1123 (S.B. 984)
206.12 et al (S.B. 1050)

BRIEF RATIONALE

According to testimony, many telecommunication companies are moving to LLC status across the country but outdated laws in Michigan have prevented them from doing so. Some have argued that laws should be updated to streamline the State's corporate structure to improve operational consistency.

Legislative Analyst: Nathan Leaman

FISCAL IMPACT

The bills would have no fiscal impact on State or local revenue nor State or local expenditure. Taxpayers affected by the bills currently file as corporations under Michigan statute. Senate Bill 1050 would require that a taxpayer continue to file as a corporation even if the taxpayer reorganized into an LLC, which traditionally does not file as a corporation.

Without the tie-bar to Senate Bill 1050, Senate Bills 982 (S-1) through 984 would reduce General Fund (GF) revenue by an unknown but potentially significant amount and increase School Aid Fund (SAF) revenue by a lesser magnitude than the decrease in GF revenue. Absent the tie-bar, Senate Bills 982-984 would reduce GF revenue under the Corporate Income Tax but replace a portion of that revenue with increased revenue under the Flow-Through Entity Tax (which is how LLCs traditionally file if they wish to avoid the Federal government's \$10,000 cap on deducting state and local taxes), which is directed to the GF and the SAF.

The loss that would occur absent the tie-bar to Senate Bill 1050 would reflect the lower tax rate under the Flow-Through Entity Tax. Without the tie-bar, several data sources suggest the net GF loss could be close to \$10.0 million per year if even one major taxpayer were affected by the bill; however, because business profits can swing substantially from year to year, any changes in revenue due to the bills could be greater than or less than the changes in previous years. Data from various sources indicate that historically these year-to-year swings in profits ranged from a 51.1% decline to a 234.6% increase (2003), with other years remaining relatively flat. Data from the 2017 Census indicate that the revenue impacts that would occur absent the tie-bar to Senate Bill 1050 would likely be concentrated across relatively few firms. Many firms in the sector are small and would questionably have any significant tax liabilities, if any liability at all, to be affected by the bills.

Fiscal Analyst: David Zin