

SENATE BILL NO. 426

June 17, 2025, Introduced by Senator BELLINO and referred to Committee on Appropriations.

A bill to amend 1967 PA 281, entitled
"Income tax act of 1967,"
by amending sections 703, 705, and 711 (MCL 206.703, 206.705, and
206.711), section 703 as amended by 2016 PA 158, section 705 as
amended by 2011 PA 192, and section 711 as amended by 2018 PA 118.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1 Sec. 703. (1) A person who disburses pension or annuity
2 payments, except as otherwise provided under this section, shall
3 withhold a tax in an amount computed by applying the rate

prescribed in section 51 on the taxable part of payments from an employer pension, annuity, profit-sharing, stock bonus, or other deferred compensation plan as well as from an individual retirement arrangement, an annuity, an endowment, or a life insurance contract issued by a life insurance company. ~~Withholding~~ **A person** shall ~~be calculated~~ **calculate the withholding** on the taxable disbursement after deducting from the taxable portion the same proportion of the total amount of personal and dependency exemptions of the individual allowed under this act. ~~Withholding~~ **A person** is not required **to withhold a tax** on any part of a distribution that is not expected to be includable in the recipient's gross income or that is deductible from adjusted gross income under section 30(1)(e) or (f).

(2) Every employer in this state required under the provisions of the internal revenue code to withhold a tax on the compensation of an individual, except as otherwise provided, shall deduct and withhold a tax in an amount computed by applying, except as provided by subsection ~~(14)~~, **(11)**, the rate prescribed in section 51 to the remainder of the compensation after deducting from compensation the same proportion of the total amount of personal and dependency exemptions of the individual allowed under this act that the period of time covered by the compensation is of 1 year. The department may prescribe withholding tables that may be used by employers to compute the amount of tax required to be withheld.

~~(3) Except as otherwise provided under this section, for tax years that begin before July 1, 2016, every flow-through entity in this state shall withhold a tax in an amount computed by applying the rate prescribed in section 51 to the distributive share of taxable income reasonably expected to accrue after allocation and~~

~~1 apportionment under chapter 3 of each nonresident member who is an
2 individual after deducting from that distributive income the same
3 proportion of the total amount of personal and dependency
4 exemptions of the individual allowed under this act. All of the
5 taxes withheld under this section shall accrue to the state on
6 April 15, July 15, and October 15 of the flow-through entity's tax
7 year and January 15 of the following year, except a flow-through
8 entity that is not on a calendar year basis shall substitute the
9 appropriate due dates in the flow-through entity's fiscal year that
10 correspond to those in a calendar year. Withholding for each period
11 shall be equal to 1/4 of the total withholding calculated on the
12 distributive share that is reasonably expected to accrue during the
13 tax year of the flow-through entity.~~

~~14 (4) Except as otherwise provided under this section, for tax
15 years that begin before July 1, 2016, every flow through entity
16 with business activity in this state that has more than \$200,000.00
17 of business income reasonably expected to accrue in the tax year
18 after allocation or apportionment shall withhold a tax in an amount
19 computed by applying the rate prescribed in section 623 to the
20 distributive share of the business income of each member that is a
21 corporation or that is a flow-through entity. For purposes of
22 calculating the \$200,000.00 withholding threshold, the business
23 income of a flow-through entity shall be apportioned to this state
24 by multiplying the business income by the sales factor of the flow-
25 through entity. The sales factor of the flow-through entity is a
26 fraction, the numerator of which is the total sales of the flow-
27 through entity in this state during the tax year and the
28 denominator of which is the total sales of the flow-through entity
29 everywhere during the tax year. As used in this subsection,~~

~~"business income" means that term as defined in section 603(2). For a partnership or S corporation, business income includes payments and items of income and expense that are attributable to business activity of the partnership or S corporation and separately reported to the members. As used in this subsection, "sales" means that term as defined in section 609 and sales in this state is determined as provided in sections 665 and 669. All of the taxes withheld under this section shall accrue to the state on April 15, July 15, and October 15 of the flow-through entity's tax year and January 15 of the following year, except a flow-through entity that is not on a calendar year basis shall substitute the appropriate due dates in the flow-through entity's fiscal year that correspond to those in a calendar year. Withholding for each period shall be equal to 1/4 of the total withholding calculated on the distributive share of business income that is reasonably expected to accrue during the tax year of the flow-through entity.~~

~~(5) For tax years that begin before July 1, 2016, if a flow-through entity is subject to the withholding requirements of subsection (4), then a member of that flow-through entity that is itself a flow-through entity shall withhold a tax on the distributive share of business income as described in subsection (4) of each of its members. The department shall apply tax withheld by a flow-through entity on the distributive share of business income of a member flow-through entity to the withholding required of that member flow-through entity. All of the taxes withheld under this section shall accrue to the state on April 15, July 15, and October 15 of the flow-through entity's tax year and January 15 of the following year, except a flow-through entity that is not on a calendar year basis shall substitute the appropriate due dates in~~

~~the flow-through entity's fiscal year that correspond to those in a calendar year. Withholding for each period shall be equal to 1/4 of the total withholding calculated on the distributive share of business income that is reasonably expected to accrue during the tax year of the flow-through entity.~~

(3) ~~(6)~~ Every casino licensee shall withhold a tax in an amount computed by applying the rate prescribed in section 51 to the winnings of a nonresident reportable by the casino licensee under the internal revenue code.

(4) ~~(7)~~ Every race meeting licensee or track licensee shall withhold a tax in an amount computed by applying the rate prescribed in section 51 to a payoff price on a winning ticket of a nonresident reportable by the race meeting licensee or track licensee under the internal revenue code that is the result of pari-mutuel wagering at a licensed race meeting.

(5) ~~(8)~~ Every casino licensee or race meeting licensee or track licensee shall report winnings of a resident reportable by the casino licensee or race meeting licensee or track licensee under the internal revenue code to the department in the same manner and format as required under the internal revenue code.

(6) ~~(9)~~ Every eligible production company shall, to the extent not withheld by a professional services corporation or professional employer organization, deduct and withhold a tax in an amount computed by applying the rate prescribed in section 51 to the remainder of the payments made to the professional services corporation or professional employer organization for the services of a performing artist or crew member after deducting from those payments the same proportion of the total amount of personal and dependency exemptions of the individuals allowed under this act.

1 (7) ~~(10)~~ Every publicly traded partnership that has equity
2 securities registered with the ~~securities and exchange commission~~
3 **Securities and Exchange Commission** under section 12 of title I of
4 the securities ~~and~~ exchange act of 1934, 15 USC 78l, shall not be
5 subject to withholding.

6 (8) ~~(11)~~ Except as otherwise provided under this subsection,
7 all of the taxes withheld under this section ~~shall~~ accrue to the
8 state on the last day of the month in which the taxes are withheld
9 but shall be returned and paid to the department by the employer,
10 eligible production company, casino licensee, or race meeting
11 licensee or track licensee within 15 days after the end of any
12 month or as provided in section 705. For an employer that has
13 entered into an agreement with a community college pursuant to
14 chapter 13 of the community college act of 1966, 1966 PA 331, MCL
15 389.161 to 389.166, a portion of the taxes withheld under this
16 section that are attributable to each employee in a new job created
17 pursuant to the agreement shall accrue to the community college on
18 the last day of the month in which the taxes are withheld but shall
19 be returned and paid to the community college by the employer **or**
20 **professional employer organization, if applicable,** within 15 days
21 after the end of any month or as provided in section 705 for as
22 long as the agreement remains in effect. For purposes of this act
23 and 1941 PA 122, MCL 205.1 to 205.31, payments made by an employer
24 **or professional employer organization, if applicable,** to a
25 community college under this subsection ~~shall be considered~~ **are**
26 income taxes paid to this state.

27 (9) ~~(12)~~ A person required by this section to deduct and
28 withhold taxes on income under this section holds the amount of tax
29 withheld as a trustee for this state and is liable for the payment

1 of the tax to this state or, if applicable, to the community
 2 college and is not liable to any individual for the amount of the
 3 payment.

4 **(10)** ~~(13)~~—An employer in this state is not required to deduct
 5 and withhold a tax on the compensation paid to a nonresident
 6 individual employee, who, under section 256, may claim a tax credit
 7 equal to or in excess of the tax estimated to be due for the tax
 8 year or is exempted from liability for the tax imposed by this act.
 9 In each tax year, the nonresident individual shall furnish to the
 10 employer, on a form approved by the department, a verified
 11 statement of nonresidence.

12 **(11)** ~~(14)~~—A person required to withhold a tax under this act,
 13 by the fifteenth day of the following month, shall provide the
 14 department with a copy of any exemption certificate on which a
 15 person with income subject to withholding under subsection ~~(6)~~ ~~or~~
 16 ~~(7)~~ **(3) or (4)** claims more than 9 personal or dependency exemptions
 17 ~~, or~~ claims a status that exempts the person subject to withholding
 18 under subsection ~~(6)~~ ~~or~~ ~~(7)~~ **(3) or (4)** from withholding under this
 19 section.

20 **(12)** ~~(15)~~—A person who disburses annuity payments pursuant to
 21 the terms of a qualified charitable gift annuity is not required to
 22 deduct and withhold a tax on those payments as prescribed under
 23 subsection (1). As used in this subsection, "qualified charitable
 24 gift annuity" means an annuity described under section 501(m) (5) of
 25 the internal revenue code and issued by an organization exempt
 26 under section 501(c) (3) of the internal revenue code.

27 ~~(16) Notwithstanding the requirements of subsections (4) and~~
 28 ~~(5), if a flow-through entity receives an exemption certificate~~
 29 ~~from a member other than a nonresident individual, the flow-through~~

1 ~~entity shall not withhold a tax on the distributive share of the~~
2 ~~business income of that member if all of the following conditions~~
3 ~~are met:~~

4 ~~(a) The exemption certificate is completed by the member in~~
5 ~~the form and manner prescribed by the department and certifies that~~
6 ~~the member will do all of the following:~~

7 ~~(i) File the returns required under this act.~~

8 ~~(ii) Pay or withhold the tax required under this act on the~~
9 ~~distributive share of the business income received from any flow-~~
10 ~~through entity in which the member has an ownership or beneficial~~
11 ~~interest, directly or indirectly through 1 or more other flow-~~
12 ~~through entities.~~

13 ~~(iii) Submit to the taxing jurisdiction of this state for~~
14 ~~purposes of collection of the tax under this act together with~~
15 ~~related interest and penalties under 1941 PA 122, MCL 205.1 to~~
16 ~~205.31, imposed on the member with respect to the distributive~~
17 ~~share of the business income of that member.~~

18 ~~(b) The department may require the member to file the~~
19 ~~exemption certificate with the department and provide a copy to the~~
20 ~~flow-through entity.~~

21 ~~(c) The department may require a flow-through entity that~~
22 ~~receives an exemption certificate to attach a copy of the exemption~~
23 ~~certificate to the annual reconciliation return as required by~~
24 ~~section 711. A flow-through entity that is entirely exempt from the~~
25 ~~withholding requirements of subsection (4) or (5) by this~~
26 ~~subsection may be required to furnish a copy of the exemption~~
27 ~~certificate in another manner prescribed by the department.~~

28 ~~(d) A copy of the exemption certificate shall be retained by~~
29 ~~the member and flow through entity and made available to the~~

~~department upon request. Any copy of the exemption certificate shall be maintained in a format and for the period required by 1941 PA 122, MCL 205.1 to 205.31.~~

~~(17) The department may revoke the election provided for in subsection (16) if it determines that the member or a flow-through entity is not abiding by the terms of the exemption certificate or the requirements of subsection (16). If the department does revoke the election option under subsection (16), the department shall notify the affected flow-through entity that withholding is required on the member under subsection (4) or (5), beginning 60 days after notice of revocation is received.~~

~~(18) Notwithstanding the requirements of subsections (4) and (5), a flow-through entity is not required to withhold in accordance with this section for a member that voluntarily elects to file a return and pay the tax imposed by the Michigan business tax act under section 680 or section 500 of the Michigan business tax act, 2007 PA 36, MCL 208.1500.~~

~~(19) Notwithstanding the withholding requirements of subsection (3), (4), or (5), a flow-through entity is not required to comply with those withholding requirements to the extent that the withholding would violate any of the following:~~

~~(a) Housing assistance payment programs distribution restrictions under 24 CFR part 880, 881, 883, or 891.~~

~~(b) Rural housing service return on investment restrictions under 7 CFR 3560.68 or 3560.305.~~

~~(c) Articles of incorporation or other document of organization adopted pursuant to section 83 or 93 of the state housing development authority act of 1966, 1966 PA 346, MCL 125.1483 and 125.1493.~~

1 Sec. 705. All provisions relating to the administration,
2 collection, and enforcement of this act and 1941 PA 122, MCL 205.1
3 to 205.31, apply to all persons required to withhold taxes and to
4 the taxes required to be withheld under this ~~part~~. **chapter**. If the
5 department has reasonable grounds to believe that a person required
6 to withhold taxes under this ~~part~~ **chapter** will not pay taxes
7 withheld to this state or, if applicable, to the community college,
8 as prescribed by this ~~part~~, **chapter**, or to provide a more efficient
9 administration, the department may require that person to make the
10 return and pay to the department or, if applicable, to the
11 community college, the tax deducted and withheld at other than
12 monthly periods, or from time to time, or require that person to
13 deposit the tax in a bank approved by the department in a separate
14 account, in trust for the department or, if applicable, the
15 community college, and payable to the department or the community
16 college, and to keep the amount of the taxes in the account until
17 payment over to the department or the community college.

18 Sec. 711. (1) Every person required by this ~~part~~ **chapter** to
19 deduct and withhold taxes for a tax year on income other than
20 distributive share of income from a flow-through entity shall
21 furnish to the person who received the income a statement in
22 duplicate on or before January 31 of the succeeding year of the
23 total income paid during the tax year and the amount deducted or
24 withheld. However, if employment is terminated before the close of
25 a calendar year by a person that goes out of business or
26 permanently ceases to exist, then the statement required by this
27 subsection shall be issued within 30 days after the last
28 compensation, winnings, or payoff of a winning ticket is paid. A
29 duplicate of a statement made pursuant to this section and an

1 annual reconciliation return, MI-W3, shall be filed with the
2 department by February 28 of the succeeding year for tax years
3 before the 2018 tax year and by January 31 of the succeeding year
4 for the 2018 tax year and each tax year after 2018 except that a
5 person that goes out of business or permanently ceases to exist
6 shall file the statement and the annual reconciliation return
7 within 30 days after going out of business or permanently ceasing
8 to exist. ~~For tax years that begin before July 1, 2016, a flow-~~
9 ~~through entity that was required to withhold taxes on distributive~~
10 ~~shares of business income shall file an annual reconciliation~~
11 ~~return with the department no later than the last day of the second~~
12 ~~month following the end of the flow-through entity's federal tax~~
13 ~~year. The department may require a flow-through entity to file an~~
14 ~~annual business income information return with the department on~~
15 ~~the due date, including extensions, of its annual federal~~
16 ~~information return.~~

17 (2) Every person required by this ~~part~~ **chapter** to deduct or
18 withhold taxes shall make a return or report in form and content
19 and at times as prescribed by the department. An employer that has
20 more than 250 employees shall file its annual return or report
21 required under this section in electronic form. An employer that
22 has entered into an agreement with a community college pursuant to
23 chapter 13 of the community college act of 1966, 1966 PA 331, MCL
24 389.161 to 389.166, and **a professional employer organization that**
25 **has entered into an agreement with that employer for employees in**
26 **new jobs** is required to deduct or withhold taxes from compensation
27 and make payments to a community college pursuant to the agreement
28 for a portion of those taxes withheld shall, for as long as the
29 agreement remains in effect, delineate in the return or report

1 required under this subsection between the amount deducted or
2 withheld and paid to the state and that amount paid to a community
3 college. An employer that has entered into a written agreement
4 pursuant to the good jobs for Michigan program created under
5 section 90h of the Michigan strategic fund act, 1984 PA 270, MCL
6 125.2090h, shall, for as long as the written agreement remains in
7 effect, delineate in the return or report required under this
8 subsection the portion of those taxes withheld and paid to the
9 state that are attributable to certified new jobs.

10 (3) Every person who receives income subject to withholding
11 under this ~~part~~**chapter** shall furnish to the person required by
12 this ~~part~~**chapter** to deduct and withhold taxes information required
13 to make an accurate withholding. A person who receives income
14 subject to withholding under this ~~part~~**chapter** shall file with the
15 person required by this ~~part~~**chapter** to deduct and withhold taxes
16 revised information within 10 days after a decrease in the number
17 of exemptions or a change in status from a nonresident to a
18 resident. The person who receives income subject to withholding
19 under this ~~part~~**chapter** may file revised information when the
20 number of exemptions increases or when a change in status occurs
21 from that of a resident of this state to a nonresident of this
22 state. Revised information shall not be given retroactive effect
23 for withholding purposes. A person required by this ~~part~~**chapter** to
24 deduct and withhold taxes shall rely on this information for
25 withholding purposes unless directed by the department to withhold
26 on some other basis. If a person who receives income subject to
27 withholding under this ~~part~~**chapter** fails or refuses to furnish
28 information, the person required by this ~~part~~**chapter** to deduct and
29 withhold taxes shall withhold at the full rate of tax from the

1 person's income subject to withholding under this ~~part~~**chapter**.

2 Enacting section 1. This amendatory act does not take effect
3 unless Senate Bill No. 425 of the 103rd Legislature is enacted into
4 law.