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SFA BILL ANALYSIS

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Senate Bill 1040 (Substitute S-1 as reported)
Sponsor: Senator Philip E. Hoffman
Committee: Finance

CONTENT

The bill would amend the Single Business Tax (SBT) Act to increase the investment tax credit (ITC) for taxpayers with adjusted gross receipts of $5 million or less. Currently, the SBT rate is 2.1% for the 2000 tax year, and is scheduled to be reduced by .1% each January 1 (if there is a balance of at least $250 million in the Budget Stabilization Fund). A taxpayer may claim an ITC for a percentage of the costs paid or accrued in a taxable year for tangible assets physically located in Michigan. Essentially, the credit equals a percentage of the amount a firm invests in tangible assets in Michigan, for a tax year beginning after December 31, 1999; for subsequent tax years the percentage will be reduced each year the tax rate is reduced. The ITC is calculated as follows:

$$\frac{\text{Current Year Tax Rate} \times .85\%}{2.3\%} \times ([A+B+C] - [D+E+F])$$

> Under the formula, A, B, and C represent the costs paid or accrued in a taxable year for tangible assets and mobile tangible assets as provided in the Act; D, E, and F represent the gross proceeds of the sale or other disposition of assets A, B, and C, and the transfer out of State of those assets that are not mobile tangible assets.

The bill provides that for taxpayers with adjusted gross receipts for the tax year of $1 million or less, the multiplier of .85% in the formula would be replaced with 2.3% (thus increasing the value of the credit). For taxpayers with adjusted gross receipts over $1 million but not more than $2.5 million, the multiplier would be 1.5%; and for over $2.5 million but not more than $5 million, 1.0%. Taxpayers with adjusted gross receipts over $5 million would have to use the original formula.

For purposes of the ITC calculation, "adjusted gross receipts" would mean gross receipts apportioned or allocated to Michigan with the apportionment fraction, calculated under the Act; plus the gross proceeds or benefits derived from the sale or disposition of assets that had previously been claimed as a deduction as provided in the Act; plus the gross proceeds of the sale or other disposition of tangible assets and mobile tangible assets obtained after 1999, and assets purchased or acquired after 1996 that were transferred out of the State.

MCL 208.35a Legislative Analyst: G. Towne

FISCAL IMPACT

The bill would reduce single business tax revenue by an estimated $12.4 million in FY 1999-2000 and $16.7 million in FY 2000-01, according to the Department of Treasury. This loss in revenue would affect General Fund/General Purpose revenue.

Date Completed: 3-1-00 Fiscal Analyst: J. Wortley