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

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 687 (as introduced on 8-20-07)
Sponsor: Senator Jud Gilbert, II

CONTENT

Senate Bill 687 would amend the Michigan Business Tax Act by creating a new deduction for businesses that realize an increase in their deferred tax liability due to the enactment of the new Michigan business tax, which was enacted on July 12, 2007, and will take effect on January 1, 2008. The deduction would equal the change in a business's deferred tax liability during the first tax period ending on or after July 12, 2007, and the business would claim the deduction by deducting 10% of this difference during each of the successive 10 years beginning with the 2013 tax year. If the deduction exceeded a business's tax base in any of these years, the unused portion of the deduction could be carried forward and used in future years.

Income tax laws tend to differ from the financial accounting standards businesses use to compute their "book value" as stated in their official financial statement. As a result, temporary timing differences occur between the tax basis and financial accounting basis measures for key financial statistics. For example, under current Federal income tax law, assets are depreciated faster than they are under the financial accounting standards used to compute the official financial statement. The income tax liability is reduced initially due to the acceleration in depreciation, but then is increased in future years of the life of the asset as the depreciation adjustment is diminished, relative to the financial accounting standards. When this happens, a business's official financial statement must include the amount of income tax liability that has been deferred to future years.

Because Michigan's new business tax includes an income tax, and the tax it will replace - the single business tax - is not an income tax, businesses might realize an increase in their deferred tax liability, under the new Michigan business tax. An increase in a business's deferred tax liability will reduce the "book value" of that business from what it otherwise would be. This proposed deduction is designed to reduce the Michigan business tax liability in the future, thus creating an immediate deferred tax asset that would eliminate this potential net increase in a business's deferred tax liability and thereby avoid a decrease in the business's "book value" as stated in its official financial statement.

MCL 208.1201

FISCAL IMPACT

A thorough analysis of the potential loss in Michigan business tax revenue this bill would generate is currently in progress. However, based on the limited information and data currently available, the preliminary estimate is that this bill would reduce Michigan business tax revenue in the range of $100 million to $150 million, on average, for each of the 10 tax years beginning with the 2013 tax year. Under the bill, a business would be able to carry forward any portion of the 10% deduction that it would not be able to use in a particular year for use in some future year, so the actual annual cost of this deduction could be less than the range indicated above, but then would be extended over a greater number of years. The total loss in revenue over this 10-year or longer period of time, which would begin in FY 2012-13, would total an estimated $1.0 billion to $1.5 billion. This loss in revenue would reduce the revenue going to the General Fund/General Purpose budget. There would be no direct impact on the School Aid Fund or local governments.

Date Completed: 8-30-07 Fiscal Analyst: Jay Wortley