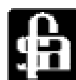

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Senate Bill 480 (as introduced 6-16-11)
Sponsor: Senator Mark C. Jansen
Committee: Reforms, Restructuring, and Reinventing

Date Completed: 6-21-11

CONTENT

The bill would amend the Income Tax Act to create a new deduction for businesses from the recently enacted Corporate Income Tax, scheduled to take effect beginning January 1, 2102. The proposed deduction is related to a current provision (MCL 208.1201(2)(i) and 208.1201(3)) in the Michigan Business Tax (MBT) Act that concerns deferred tax liabilities. The bill would allow a unitary business group that had taken the MBT deduction to adjust business income to account for assets reported under the MBT deduction, when computing a gain or loss on the sale of those assets. Because the Corporate Income Tax will be levied only on businesses organized as a traditional corporation, the bill would not affect businesses organized as sole proprietorships, partnerships, S-corporation, or limited liability companies that elect to be taxed as a partnership or S-corporation.

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 more rapidly 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 the MBT included a traditional income tax, and replaced the Single Business Tax (which was not an income tax), the MBT deduction was enacted to address situations in which businesses might realize an increase in their deferred tax liability due to the transition to an income tax. An increase in a business's deferred tax liability will reduce the "book value" of that business from what it otherwise would be. The MBT deduction was 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.

For taxpayers covered by the Corporate Income Tax, the bill would effectively carry the adjustment through for those assets affected by the transition to the MBT.

MCL 206.623

FISCAL IMPACT

The bill would reduce General Fund revenue by an unknown amount. When the MBT provision was enacted, only a portion of the "book value" difference was eligible for a deduction and the provision affected all firms, not just traditional corporations that were part of a unitary group. The MBT provision was estimated to reduce revenue by $40.0 million to $60.0 million per year during the first five years (which were to begin in 2015), when the allowed portion was 4.0%, and increase to $100.0 million to $150.0 million per year when the allowed portion reached 10.0% between 2025 and 2029. The total loss over the life of the MBT provision was expected to be $1.0 billion to $1.5 billion.

Although the Corporate Income Tax will be levied on fewer firms than the MBT is levied on, the majority of businesses affected by the MBT provision are likely organized as traditional corporations. Consequently, most of the impact of the MBT change would likely be reflected in the impact on the Corporate Income Tax. Furthermore, the tax rate on corporations under the Corporate Income Tax is approximately the same as the rate on such firms under the MBT. The number of those firms that are part of a unitary business group is unknown.

Fiscal Analyst: David Zin

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.