



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



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

Senate Bills 982 through 984 (as introduced 8-15-24)
Sponsor: Senator Sam Singh (S.B. 982 & 984)
Senator Dan Lauwers (S.B. 983)
Committee: Regulatory Affairs

Date Completed: 9-17-24

CONTENT

Taken together, the bills would 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.

Senate Bill 982

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 limited liability company if the telephone corporation satisfied the requirements applicable to the conversion of a business organization into a domestic limited liability company under the Michigan Limited Liability Company Act, as proposed to be amended by Senate Bill 983.

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.

The bills are tie-barred.

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

Legislative Analyst: Nathan Leaman

FISCAL IMPACT

The bills would reduce General Fund revenue by an unknown but potentially significant amount and increase School Aid Fund (SAF) revenue by an amount that was less than the decrease in General Fund revenue. The bills would reduce General Fund revenue under the Corporate Income Tax (CIT) but replace a portion of that revenue with increased revenue under the Flow-Through Entity Tax, which is directed to the General Fund and the SAF.

Because the tax rate under the Flow-Through Entity Tax is less than the tax rate under the CIT, the result is a net loss of General Fund revenue to the State. Several data sources suggest the net General Fund loss could be close to \$10.0 million per year if even one major taxpayer were affected by the bill.

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. Published Internal Revenue Service data for the telecommunications sector show that between 2002 and 2013 (the most recent year for which data are published by sector), income subject to tax ranged from \$2.7 billion to \$37.4 billion and year-to-year swings ranged from a 51.1% decline (in 2011) to a 234.6% increase (2003); and included years with increases around 95% (2005 and 2013) and as flat as 0.3% (2004). Data from the Bureau of Economic Analysis on corporate profits in the broadcasting/telecommunications sector (a broader sector than just telecommunications) is available through 2020 and exhibits even wider year-to-year swings.

The bills' revenue impacts would likely be concentrated across relatively few firms. Although the 2017 Census indicated more than 11,000 firms in the telecommunications sector nationally, the four largest accounted for 58% of total sales, the eight largest accounted for 75%, and the 20 largest accounted for 85%. As a result, many firms in the sector are small and may questionably have any meaningful tax liabilities, if any liability, at all and thus would not be significantly affected by the bills.

AT&T and Verizon represent two of the larger telecommunications firms with a presence in Michigan. Based on their 2023 income statements, the bills would lower revenue from AT&T by an estimated \$8.2 million (a loss of \$28.1 million in CIT revenue and a gain in Flow-Through Entity Tax revenue of \$19.9 million, including roughly \$4.8 million for the SAF), and revenue from Verizon by an estimated \$8.9 million (a loss \$30.6 million in CIT revenue and a gain in Flow-Through Entity Tax revenue of \$21.7 million, including roughly \$5.2 million for the SAF). Emphasizing the volatility of business income, based on their 2022 income statements, the bills would have had no effect on AT&T because the firm posted an income loss (no liability due to negative income) but would have lowered revenue from Verizon by \$14.8 million (a loss \$50.9 million in CIT revenue and a gain in Flow-Through Entity Tax revenue of \$36.0 million, including roughly \$8.7 million for the SAF). Similarly, based on the 2021 income statements, the bills would have lowered net revenue from AT&T by an estimated \$11.3 million and from Verizon by an estimated \$15.4 million.

Fiscal Analyst: David Zin

SAS\S2324\s982sa

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.