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SFA**BILL ANALYSIS**

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House Bill 4773 (Substitute S-1 as reported by the Committee of the Whole)

Sponsor: Representative Kirk A. Profit

House Committee: Tax Policy

Senate Committee: Finance

CONTENT

The bill would amend the Single Business Tax (SBT) Act to exempt from the tax sales of nursery stock grown by a seller and sold to a nursery dealer licensed under the Insect Pest and Plant Disease Act. The bill states that these provisions, "...are curative and intended to express the original intent of the legislature in the definition of production of agricultural goods". Further, the bill provides that, effective for tax years after 1990, a farmers' cooperative corporation would have to exclude from its adjusted SBT base revenue and expenses attributable to business transacted with farmer or farmer cooperative corporation patrons, to whom net earnings were allocated in the form of patronage dividends as defined in the Internal Revenue Code.

Currently, the SBT Act exempts from the tax that portion of a taxpayer's tax base that is attributable to the production of agricultural goods, if the taxpayer's primary activity is the production of agricultural goods. "Production of agricultural goods" means commercial farming including, but not limited to, cultivation of the soil; growing and harvesting of an agricultural, horticultural, or floricultural commodity; dairying; raising of livestock, bees, fish, fur-bearing animals, or poultry; or turf or tree farming. It does not include retail marketing of agricultural goods, meaning that such activity is not tax exempt. Under the bill, this exclusion would not apply to sales of nursery stock grown by a seller and sold to a licensed nursery dealer.

Under the Insect Pest and Plant Disease Act, "nursery stock" means all botanically classified hardy perennial or biennial trees, shrubs, vines, and plants, either domesticated or wild, cuttings, grafts, scions, buds, bulbs, rhizomes, or their roots, fruit pits; and other plants and plant parts for, or capable of, propagation, except field, vegetable and flower seeds, corms and tubers. A "nursery dealer" is a business that is not a grower or an original producer of nursery stock, that buys nursery stock for the purpose of reselling or reshipping independently of the control of any person or business that owns or manages a nursery.

MCL 208.35

Legislative Analyst: G. Towne

FISCAL IMPACT

The proposed changes in the single business tax on tree nursery growers and sellers, and farm cooperatives, would reduce SBT liabilities by an estimated \$3 million in FY 1997-98 and by \$2.5 million in FY 1998-99. The proposed exemption on the sales made by nursery stock growers to retailers and landscapers would reduce revenue by an estimated \$1 million in FY 1997-98, which reflects refunds that would have to be made because the change would be retroactive, and by less than \$0.5 million in FY 1998-99. Farm cooperatives have been underpaying their SBT liability and this bill would make the SBT consistent with their recent practice. This change would reduce the tax liability of farmer cooperative corporations by about \$2 million in FY 1997-98 compared with what it would be under current law.

Date Completed: 10-7-97

Fiscal Analyst: J. Wortley

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