

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

SFA**BILL ANALYSIS**

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

House Bill 5795 (as reported without amendment)
Sponsor: Representative Kirk A. Profit
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 12-8-98

RATIONALE

The calculation of the capital acquisition deduction (CAD) under the Single Business Tax (SBT) Act has been altered in recent years. Currently, a taxpayer generally may deduct the amount paid or accrued in a taxable year for tangible assets that are (or under the Internal Revenue Code will become) eligible for depreciation for Federal income tax purposes, provided that the assets are located in Michigan for use in a business activity in Michigan. This treatment of the CAD has applied to tax years after 1996; prior to that a multistate taxpayer could deduct the cost of tangible assets located and acquired anywhere, after apportioning the assets. The Act currently allows certain retailers to use the old (alternative) CAD, under certain conditions: The taxpayer must have its headquarters in Michigan; have incorporated in Michigan before January 9, 1996; sell retail prescriptions that comprise more than 2%, but less than 10%, of the taxpayer's total retail sales; and sell at retail certain products that comprise more than 50% of the taxpayer's total sales. (The products that must make up more than 50% of total sales are fresh, frozen, or processed food, food products, or consumable necessities, household products; prescriptions; health and beauty care products; cosmetics; pet products; carbonated beverages; and beer, wine, or liquor.) It has been suggested that the 50% threshold be lowered to 20%, which would allow other retailers to qualify for the alternative CAD.

CONTENT

The bill would amend the Single Business Tax Act to allow additional retailers to qualify to claim the alternative CAD by lowering the percentage of retail sales that a retailer must meet to claim the alternative CAD, from 50% to 20% of total sales. The bill would apply to tax years beginning after 1997.

MCL 208.23 & 208.23b

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The qualifications in the SBT Act that a taxpayer must meet to claim the alternative CAD reportedly limit the availability of the alternative CAD to one large Michigan-based retailer (Meijer, Inc.). By lowering to 20% the percentage of certain retail sales that a retailer must realize to claim the alternative, the bill would extend the availability of the alternative CAD to another large Michigan-based retailer (K-Mart Corporation).

Legislative Analyst: G. Towne

FISCAL IMPACT

This bill would reduce the single business tax paid by the K-Mart Corporation by an estimated \$2.5 million to \$4.0 million annually.

Fiscal Analyst: J. Wortley

H9798\S5795A

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.