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Senate Bill 69 (Substitute S-1 as reported)
Sponsor: Senator Nancy Cassis
Committee: Finance

CONTENT

The bill would amend the Michigan Business Tax (MBT) Act to do the following:

- Increase the income limits affecting eligibility for the small business credit.
- Extend the entrepreneurial tax credit to the 2011, 2012, and 2013 tax years.
- Reduce the number of new jobs that a taxpayer must create in or transfer into this State, and the capital investment the taxpayer must make, in order to claim the entrepreneurial credit.

The Act allows a credit against the MBT for any taxpayer with gross receipts that do not exceed \$20.0 million and with adjusted business income, minus a loss adjustment, that does not exceed \$1.3 million as adjusted annually for inflation (called the "alternate tax" or "small business credit"). The bill would increase the limit on adjusted business income to \$1.5 million.

The bill also would increase from \$180,000 to \$210,000 the compensation that an individual, any one partner of a partnership, member of a limited liability company (LLC), or shareholder of an S corporation may receive as a distributive share of the adjusted business income minus the loss adjustment of the individual, partnership, LLC, or S corporation before that individual or entity is disqualified from receiving the credit. The compensation and director's fees that a shareholder or officer of a corporation other than an S corporation may receive before that corporation is disqualified from eligibility for the credit also would be increased from \$180,000 to \$210,000. In addition, the bill would adjust the phase-out of the credit based on the level of compensation. Currently, for income between \$160,000 and \$180,000, the credit is reduced by a percentage between 20% and 80%. Under the bill, for income of between \$165,000 and \$170,000, the credit would be reduced by 10%. For each additional \$5,000 of compensation, the credit would be reduced by another 10%.

Under the Act, for the 2008, 2009, and 2010 tax years, except as otherwise provided, an eligible taxpayer may claim the Michigan entrepreneurial credit equal to 100% of the taxpayer's MBT liability attributable to increased employment if the taxpayer met certain conditions in the immediately preceding tax year. Among other things, the taxpayer must have had less than \$25.0 million in gross receipts, created in this State or transferred into this State at least 20 new jobs, and made a capital investment in this State of at least \$1.25 million in the immediately preceding tax year.

The bill would extend the credit to the 2011, 2012, and 2013 tax years. The bill would reduce the minimum number of new jobs created in or transferred into the State to eight, and would reduce the minimum capital investment to \$500,000.

MCL 208.1417 & 208.1441

Legislative Analyst: Craig Laurie

FISCAL IMPACT

The bill would expand the Michigan Business Tax small business and entrepreneurial credits. Based on information from the Department of Treasury, the bill's proposed changes to the small business credit would increase the cost of the credit (reduce Michigan Business Tax revenue) an estimated \$47.0 million on a full-year basis. Given these proposed changes in the small business credit, the proposed changes to the entrepreneurial credit would increase the cost of the credit (decrease Michigan Business Tax revenue) an estimated \$3.0 million. As a result, this bill would reduce Michigan Business Tax revenue an estimated \$50.0 million on a full-year basis. The General Fund/General Purpose budget would incur all of this loss in Michigan Business Tax revenue. The bill would not directly affect local governments.

Date Completed: 3-11-09

Fiscal Analyst: Jay Wortley

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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.