

Legislative Analysis



EXEMPT CERTAIN BROADBAND GRANTS FROM TAXABLE INCOME UNDER INCOME TAX ACT

Phone: (517) 373-8080
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House Bill 5682 as introduced

Sponsor: Rep. Jenn Hill

Committee: Energy, Communications, and Technology

Complete to 5-22-24

Analysis available at
<http://www.legislature.mi.gov>

SUMMARY:

House Bill 5682 would amend the Income Tax Act to allow grant money related to broadband expansion that was received under specified government programs to be deducted from the taxable income of both individual and corporate taxpayers under the act. The bill states that it is retroactive and would apply for tax years beginning on and after January 1, 2023.

Specifically, for tax years beginning on and after January 1, 2023, a person subject to tax under the act could deduct, to the extent included in adjusted gross income, grant money received from a grant issued under any of the following by Michigan or another state, a Michigan political subdivision, or the federal government under a state, local, or federal program for the purpose of providing, improving, or expanding broadband expansion in Michigan:

- The Broadband Expansion Act of Michigan.
- The federal Broadband Equity, Access, and Deployment program.
- The federal Middle Mile grant program.
- The federal Connect America Fund, Alternative Connect America Cost Model, and Enhanced Alternative Connect America Cost Model programs administered by the Federal Communications Commission (FCC) under the FCC Connect America Fund Order 14-190, 80 FR 445, 353, including various phases and revisions.
- The federal Rural Digital Opportunity Fund established and administered by the FCC.
- The federal ReConnect program, also known as the Rural eConnectivity program.
- The federal Tribal Broadband Connectivity program administered by the National Telecommunications and Information Administration (NTIA).
- The Broadband Infrastructure program administered by the NTIA.
- The federal Coronavirus Capital Projects Fund.
- The federal State Digital Equity Capacity grant program.
- The federal Digital Equity competitive grants program.
- The federal Rural Broadband Access Loan And Loan Guarantee program administered by the U.S. Department of Agriculture Rural Utilities Service.
- The Connecting Michigan Communities grant program established under section 806 of 2018 PA 618 and section 841 of Article 5 of 2020 PA 166.

MCL 206.30, 206.623, and 206.815

FISCAL IMPACT:

House Bill 5682 would reduce general fund revenue over the next four fiscal years by between \$1.3 million (FY 2024) and \$5.4 million (FY 2027) if the provisions of the bill are interpreted to apply to net income related to the grant, according to the Department of Treasury. Beyond that forecast window, it is assumed that the impact will remain within that range through the termination of grant projects. However, as written, the bill does appear to present a timing issue when it comes to reconciling receipt of the grant proceeds and the year in which the expenses occur for net income purposes. It does not appear that expenses in subsequent years after the grant is received could be used in calculating net income. Therefore, it is likely that the fiscal impact of the bill as written would exceed the estimates provided by the Department of Treasury. The magnitude of this difference cannot be determined with any accuracy and would depend on the number and size of projects where the expenses are spread across fiscal years outside of the year in which the grant was received.

If the provisions of the bill were interpreted to provide a full deduction of the grant awards as opposed to net income associated with the grant, the revenue reduction would also be larger than noted above. In that case, it is estimated that the annual general fund revenue reduction would be in the \$15.0 million to \$20.0 million range based on a relatively equal distribution of grant proceeds across the next 7 to 10 fiscal years. As of this writing, it is estimated that over \$2.3 billion of eligible broadband grants have been awarded. To the extent that some portion of the awards went to entities or individuals not subject to taxation, that would mitigate the fiscal impacts noted above. It should also be noted that the annual fiscal impact assumes relatively stable distribution of grant awards across fiscal years. Any change in this distribution would alter the fiscal impact across fiscal years.

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