



**House
Legislative
Analysis
Section**

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NO SBT TAX FOR MUTUAL FUNDS

House Bill 5362 as introduced
First Analysis (2-8-90)

Sponsor: Rep. Michael J. Bennane
Committee: Taxation

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THE APPARENT PROBLEM:

According to tax specialists, the Department of Treasury essentially regards mutual funds, which are usually investment trusts exempt from federal corporate taxes, as exempt from Michigan's single business tax unless they pay compensation or have depreciable physical assets. Treasury is said to consider dividends paid by mutual funds as income passed through to shareholders and thus not part of the SBT tax base. It appears that currently no mutual funds are paying the tax. However, the law does not specifically address the subject nor does it clearly address the tax treatment for mutual funds of interest earned on municipal bonds issued in states other than Michigan (which are typically exempt from federal taxation but subject to state tax and local taxes).

THE CONTENT OF THE BILL:

The bill would amend the Single Business Tax Act to specify that a financial organization defined or treated as a regulated investment company under the federal Internal Revenue Code (that is, a mutual fund) would not include as part of its tax base any dividends received or paid, or interest earned on obligations or securities of states other than Michigan.

MCL 208.21

FISCAL IMPLICATIONS:

According to the House Taxation Committee staff, the Department of Treasury "is unaware of any mutual funds from which it is receiving single business tax." (2-7-90)

ARGUMENTS:

For:

The bill would make clear the tax status of mutual funds under the Single Business Tax Act. Essentially, mutual funds would not have to pay the tax unless they had employees. Mutual funds typically are managed by separate investment advisors who are not employees of the funds, which are special kinds of trusts that pass earnings through to shareholders. The bill simply codifies the treasury department's current treatment mutual funds.

POSITIONS:

The Department of Treasury supports the bill. (2-7-90)

H.B. 5362 (2-8-90)