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Senate Bill 1345 (Substitute S-2 as reported)  
Sponsor: Senator Joanne G. Emmons  
Committee: Finance

### **CONTENT**

The bill would amend the Single Business Tax (SBT) Act to exempt from the tax that portion of the tax base attributable to the services provided to a reciprocal insurer, pursuant to Chapter 72 of the Insurance Code, by an attorney-in-fact (a person authorized to act for the reciprocal insurer).

Chapter 72 of the Insurance Code provides for reciprocal insurance exchanges. Subscribers (individuals, partnerships, and public and private corporations) are authorized to exchange reciprocal or interinsurance contracts with each other to provide indemnity among themselves and from any loss that may be insured against, except life and health insurance. The contracts may be executed by an attorney, agent, or other representative designated as attorney that is an individual, firm, or corporation.

Further, the bill specifies that a taxpayer that calculated its tax base as an insurance company would not be eligible to claim the investment tax credit under the Act. (Under the Act, a taxpayer may claim the investment tax credit for a percentage of the costs paid or accrued in a tax year for tangible assets physically located in Michigan.)

MCL 208.35 & 208.35a

Legislative Analyst: G. Towne

### **FISCAL IMPACT**

The bill would minimally reduce single business tax revenues.

Premiums comprise the overwhelming majority of adjusted receipts under the SBT insurance company retaliatory tax. The bill would exempt from an insurance company's tax base the amount attributable to services performed by an attorney-in-fact to a reciprocal insurer. Given the likely frequency of such compensation, as well as the negligible portion that nonpremium receipts contribute to an insurance company's tax base, the bill would be expected minimally to reduce State General Fund revenues. Other revenues would be unaffected by the bill.

The bill also would prevent insurance companies from claiming an investment tax credit under the SBT insurance company retaliatory tax. Currently, insurance companies are not allowed to claim a capital acquisition deduction under the SBT. As a result of Public Act 115 of 1999, beginning tax year 2000, the capital acquisition deduction will be replaced by an investment tax credit. The revenue estimates for the new investment tax credit did not account for insurance companies' claiming the credit. Consequently, prohibiting insurance companies from claiming the credit would have no fiscal impact on the State.

The bill would have no fiscal impact on local government.

Date Completed: 10-4-00

Fiscal Analyst: D. Zin