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Senate Bill 866 (as introduced 12-2-03)

Sponsor: Senator Cameron S. Brown

Committee: Economic Development, Small Business and Regulatory Reform

Date Completed: 12-16-03

CONTENT

The bill would amend the City Income Tax Act to allow a qualified start-up business to claim a credit against the city income tax, for five consecutive years beginning on December 31 of the year in which the business first claimed a credit allowed under Section 31a of the Single Business Tax Act (proposed by Senate Bill 862).

(Senate Bill 862 (S-1) would add Section 31a to the Single Business Tax Act to create a single business tax credit for a qualified start-up business that did not have a profit for two consecutive tax years. The taxpayer could claim a credit for the second year and the following tax years in which the taxpayer did not have a profit, for a total of four years. The credit would equal the taxpayer's tax liability for the tax year. "Qualified start-up business" would mean a business that had fewer than 25 full-time equivalent employees; had sales under \$1 million in the tax year for which the credit was claimed; and was not publicly traded; also, research and development would have to make up at least 15% of the business's expenses in the tax year for which the credit was claimed.)

If the city income tax credit and any unused carryforward exceeded the taxpayer's tax liability for the tax year, the excess could not be refunded but could be carried forward as an offset to the tax liability in subsequent tax years, for 10 tax years or until the excess credit was used up, whichever occurred first.

Proposed MCL 141.635a

Legislative Analyst: Julie Koval

FISCAL IMPACT

The bill is not tie-barred to Senate Bill 862 but would have no fiscal impact if that bill were not enacted.

If Senate Bill 862 were enacted, Senate Bill 866 would reduce local unit revenue by an unknown amount. Furthermore, if Senate Bill 863 were not enacted, this bill would increase State income tax revenues by an unknown amount. (Senate Bill 863 would allow qualified start-up businesses to claim a credit against their State income tax. Senate Bill 866 is not tie-barred to that bill.)

Under Senate Bill 866, a taxpayer that was able to claim the credit under the single business tax (SBT) proposed in Senate Bill 862, also could claim a credit against its city income tax equal to the business's total tax liability to the city, not just the tax liability related to the activity that earned the SBT credit. Consequently, while the activity that could earn the SBT credit is forecasted to be negligible, the bill could exempt a much wider array of economic activity from taxation and thus create a greater reduction in local unit revenues. Because the bill would reduce city income tax liability, the State would see less claimed under the city income tax credit and income tax revenues would be higher if Senate Bill 863 were not enacted.

Senate Bill 866 provides for the credit to be carried forward if it exceeds the liability of the taxpayer. Under the wording for the credit, no carry-forward would ever exist because the credit would always be equal to the amount of the liability.

This estimate is preliminary and will be revised as new information becomes available.

Fiscal Analyst: David Zin

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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.