

Legislative Analysis



MBT SMALL BUSINESS CREDIT THRESHOLD

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House Bill 5835 (Substitute H-1)

Sponsor: Rep. Steve Bieda

Committee: Tax Policy

Complete to 7-2-08

A SUMMARY OF HOUSE BILL 5835 AS REPORTED FROM COMMITTEE

The bill would amend Section 417 of the Michigan Business Tax Act, which establishes the small business credit. The MBT retained the alternate tax rate calculation for small businesses that existed in the predecessor Single Business Tax, with some modifications. Under the MBT, some small firms can calculate their tax liability as 1.8 percent of adjusted business income.

(The credit for eligible firms is equal to the amount that MBT liability exceeds 1.8 percent of adjusted business income.)

To be eligible, a firm must meet the following criteria: (1) have gross receipts not exceeding \$20 million (with a phaseout beginning at \$19 million); (2) have adjusted business income not exceeding \$1.3 million; and (3) limit officer or owner compensation to \$180,000 (with a phaseout beginning at \$160,000).

House Bill 5835 would amend the eligibility criteria. Currently, the act reduces, or begins phasing out, the credit when gross receipts exceed \$19 million. The bill would instead make that figure \$18 million and adjust the formula for reducing the credit correspondingly.

The bill's effective date would be January 1, 2008, which is the date the MBT went into effect.

(Reportedly, the number contained in the bill is what was intended when the MBT was enacted, but the final version contained an error.)

MCL 208.1417

FISCAL IMPACT:

To the extent that the bill reflects the original intent of the MBT Act, it would have no fiscal impact.

POSITIONS:

The Department of Treasury testified in support of the bill. (3-5-08)

The Michigan Association of Insurance Agents would support the bill if the limitation on owner income was indexed for inflation. (3-5-08)

The National Federation of Independent Business indicated it is neutral on the bill. (3-5-08)

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