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Senate Bills 672 and 673 (as enrolled)
Sponsor: Senator Nancy Cassis (S.B. 672)
 Senator Tom George (S.B. 673)
Senate Committee: Finance
House Committee: Tax Policy

PUBLIC ACTS 240 & 241 of 2003

Date Completed: 1-28-04

CONTENT

The bills amended the Single Business Tax (SBT) Act to remove from a taxpayer's tax base, over a four-year period, a portion of the payments a taxpayer makes for health benefit plans that benefit residents of this State.

The Act requires a taxpayer's tax base to include compensation paid to or on behalf of the taxpayer's employees, officers, or directors. The Act prescribes what must be included in and what is excluded from "compensation". Senate Bill 672 excludes from compensation 5% of the payments under, and payments of fees for the administration of, health and welfare and noninsured benefit plans for tax years beginning in 2004. The excluded amount will be increased to 20% for tax years beginning in 2005, and to 40% for tax years beginning in 2006. Senate Bill 673 increases the excluded amount to 50% for tax years that begin after 2006.

included in their tax base. There are several different methods businesses can use to calculate their single business tax liability and some of these methods do not include health care-related costs in calculating the tax. Businesses that use the gross receipts or alternative tax rate (income-based) method to calculate their single business tax liability will not benefit from this new exemption because neither of these methods includes health care-related expenses in the tax calculation. In addition, firms that do not provide health care-related benefits to their Michigan employees also will not benefit from this exemption. All single business tax revenue goes into General Fund/General Purpose revenue, so the reduction in single business tax revenue that will occur due to this new exemption, will have a direct impact on the General Fund/General Purpose budget. These bills will have no direct impact on local governments.

The bills were tie-barred, and took effect on December 29, 2003.

MCL 208.4 (S.B. 672)
208.4a (S.B. 673)

Legislative Analyst: George Towne

FISCAL IMPACT

These bills will reduce single business tax revenue an estimated \$2.2 million in FY 2003-04, \$9.9 million in FY 2004-05, \$22.2 million in FY 2005-06, and \$28.8 million in FY 2006-07. The following table presents the schedule for implementing and expanding this new partial exemption for health-related expenses incurred by businesses on behalf of workers residing in Michigan, along with the estimated fiscal impact. Businesses will benefit from this new exemption only if health-related costs are

Table 1

SBT Exemption for Health-Related Costs Phased In Period and Fiscal Impact (dollars in millions)			
Exemption Amount		Fiscal Impact	
Calendar Year	Exemption %	Fiscal Year	Tax Reduction (millions)
2004	5%	2003-04	\$2.2
2005	20%	2004-05	9.9
2006	40%	2005-06	22.2
2007 & after	50%	2006-07	28.8

Fiscal Analyst: Jay Wortley

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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.