

Legislative Analysis



SERVICE TAX REPEAL AND MBT SURCHARGE

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House Bill 5408 (Substitute H-1)
Sponsor: Rep. Andy Coulouris
Committee: Tax Policy

Complete to 11-8-07

A SUMMARY OF HOUSE BILL 5408 (H-1) AS REPORTED FROM COMMITTEE

The bill would amend the Michigan Business Tax to:

- Repeal the new state tax on selected services immediately after it takes effect December 1, 2007. The new services tax was put in place by Public Act 93 of 2007 (House Bill 5198).
- Impose an annual surcharge on the tax liability of MBT taxpayers "to meet deficiencies in state funds." The surcharge would be imposed after allocation or apportionment to the state but before calculation of the various credits available under the act. The surcharge would be 32.9 percent for the 2008 tax year and 27.3 percent for the 2009 tax year and beyond.
- Limit the amount of the surcharge imposed and levied on any one taxpayer so that it could not exceed \$2 million for any single tax year.
- Impose an alternative surcharge on financial institutions (taxpayers subject to Chapter 2B of the MBT) of 27.7 percent for the 2008 tax year and 23.4 percent for the 2009 tax year and beyond. (The cap would not apply to this alternative surcharge.)
- Specify that the surcharge would not apply to insurance companies (taxpayers subject to Chapter 2A of the MBT).
- Retain the Small Business Credit found in Section 417. This credit limits certain firms' MBT tax liability to 1.8 percent of adjusted business income. (Thus the surcharge would not apply to those eligible for that credit.)
- Revise and make permanent the revenue limit (or rebate trigger). Currently, these provisions apply only to the 2008 through 2010 fiscal years. Also, these provisions currently require the rebate of revenue over the limit to be distributed 50 percent to taxpayers as refunds and 50 percent to the Budget Stabilization Fund. The bill would direct that all excess revenue be distributed to taxpayers as refunds.

- Hold the School Aid Fund harmless. The earmarking of revenue to the School Aid Fund would be adjusted in order to hold the SAF harmless from the switch from the services tax to the MBT surcharge. This would involve the additional earmarking of \$205 million in FY 2008 and \$250 million in FY 2009.

FISCAL IMPACT:

According to the Department of Treasury, the estimated fiscal impact of the repeal of the use tax on services and imposing a surcharge in the Michigan business tax would reduce FY 2007-08 revenue by an estimated \$56.3 million and increase FY 2008-09 revenue by an estimated \$55.9 million.

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