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SFA BILL ANALYSIS

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Senate Bill 1422 (Substitute S-1 as reported)
Sponsor: Senator Joanne G. Emmons
Committee: Finance

CONTENT

The bill would amend the Single Business Tax (SBT) Act to exclude from a taxpayer's gross receipts, receivables sold to a third party.

("Gross receipts" means the entire amount a taxpayer received from any activity in intrastate, interstate, or foreign commerce carried on for direct or indirect benefit to the taxpayer or to others, except for amounts specified in the Act. If a taxpayer's adjusted tax base exceeds 50% of the sum of the taxpayer's gross receipts plus certain adjustments, the taxpayer may reduce its adjusted tax base by that excess. Also, a taxpayer does not have to file an SBT return if its gross receipts, apportioned or allocated as provided in the Act, are under $250,000.)

MCL 208.7 & 208.35a Legislative Analyst: George Towne

FISCAL IMPACT

The bill would reduce SBT revenues, and thus General Fund revenues, by an unknown and possibly significant amount. No information is available on the amount of accounts receivable sold to third parties. In 1999, U.S. corporations reported $7.7 trillion in notes and accounts receivable, compared with cash assets at year-end of $1.6 trillion, $1.4 trillion in holdings of U.S. government obligations, $957 billion in tax-exempt securities, $15.8 billion in "other investments", $2.6 trillion in "other current assets", and $2.1 trillion in "other assets". Assuming 1) that the overwhelming majority (97%) of these accounts receivable are not sold to a third party (the allowance for bad debts in 1999 totaled $139.6 billion, or approximately 1.8% of notes and accounts receivable), and 2) that Michigan activity represents approximately 3.5% of the U.S. total, the bill potentially would affect approximately $5.4 billion of accounts receivable.

In 1999, approximately 11.9% of SBT filers calculated their tax liability using a method that was affected by the level of gross receipts. The reduction in liability afforded by these calculations totaled $250.1 million, or approximately 10.6% of total SBT revenues. Assuming that the accounts receivable affected by the bill are spread uniformly across all taxpayers, regardless of how they calculate their SBT liability, approximately $967.7 million in gross receipts actually would be involved in computing tax liabilities under the bill. By excluding this amount from the gross receipts calculation, the bill would reduce revenues by approximately $8.2 million, assuming the same differential between the number of filers using the gross receipts method and the impact on revenues. The estimate is very sensitive to the share of accounts receivable sold to third parties and there are no reliable data regarding that share. For example, if the share of accounts receivable sold to third parties were 2%, instead of the 3% assumed above, the bill would reduce revenues by $5.5 million.

The actual impact of excluding accounts receivable from gross receipts could be slightly greater than the amount estimated above for four reasons: 1) lowering gross receipts for firms would allow more firms to qualify for small business credits and/or file under the income tax method,

2) lowering gross receipts would increase the number of taxpayers that find it advantageous to file using a gross receipts method, 3) lowering gross receipts would remove some taxpayers that might have liability from the requirement of filing a return, and 4) the data above reflect information on corporations only, while the SBT taxes a broader array of businesses, including sole proprietorships, partnerships, S-corporations, and other firms not required to report information on the U.S. corporate income tax return.

Date Completed: 11-18-02 Fiscal Analyst: David Zin

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.