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Senate Bill 770 (as introduced 10-9-03)  
Sponsor: Senator Alan L. Cropsey  
Committee: Finance

Date Completed: 10-15-03

### **CONTENT**

The bill would amend the Income Tax Act to require a person to file a copy of a Federal form 1099 with the Michigan Department of Treasury if the person were required under the Internal Revenue Code to file that form for a tax year. A person who failed to comply would be liable to the Department for a penalty of \$500 for each form 1099 the taxpayer failed to file.

Proposed MCL 206.355a

Legislative Analyst: George Towne

### **FISCAL IMPACT**

This bill is designed to reduce the tax avoidance that is occurring because businesses are not filing 1099s with the Federal government or are filing them but with inaccurate information, or because taxpayers are not declaring 1099 income on their Michigan income tax return.

Under Federal law, businesses are required to file 1099 forms, which declare to the Internal Revenue Service certain types of income being paid by businesses to taxpayers. There are many different types of income that are reported on 16 different 1099 forms. The most common 1099 forms are for broker and barter exchange transactions (1099-B), dividends and capital gains distributions (1099-DIV), government payments for unemployment benefits and tax refunds (1099-G), interest income (1099-INT), miscellaneous income including business payments to nonemployees such as subcontractors (1099-MISC), payments from qualified education programs (1099-Q), distributions from pensions, annuities, retirement, profit-sharing plans, and IRAs (1099-R), and proceeds from real estate transactions (1099-S).

The key question is whether requiring businesses to send the Michigan Department of Treasury a copy of all 1099s they must file with the IRS, would do much to help stop the tax avoidance that is occurring given the current Federal filing requirements. The preliminary analysis is that the proposed filing requirement could help uncover some tax avoidance, such as tax avoidance by nonresident contractors working temporarily in Michigan, but probably not by a significant amount. Any business currently choosing not to obey the Federal 1099 filing requirements, for whatever reasons, probably would not change its current behavior just because the business would be required also to send a copy of the 1099 to the Michigan Department of Treasury. In addition, the Department already has provisions in place to help identify taxpayers who exclude 1099 income from their Michigan taxable income that is reported on a 1099 to the Federal IRS.

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.