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Senate Bill 1093 (Substitute S-2 as enrolled)
Sponsor: Senator Cameron S. Brown
Committee: Finance

Date Completed: 3-23-04

RATIONALE

Some people believe that Michigan's single business tax (SBT) creates a disincentive for the State's small businesses to hire new employees, leading employers to make do with fewer workers or to leave the State in search of lower taxes. The disincentive is believed to result from the fact that, under the "value added" method of computing a company's SBT liability, employee compensation and insurance benefits are used in determining the company's tax base, with its tax liability being a percentage of the base minus deductions. Therefore, when a business hires a new employee, its tax liability may increase, regardless of whether the business experiences increased revenue. It has been suggested that one way to compensate businesses for the added tax burden they may face when hiring a new employee, and to stimulate additional hiring in the State, would be to give businesses an SBT credit for newly hired employees.

CONTENT

The bill would amend the Single Business Tax Act to allow employers with gross receipts for a tax year of \$10 million or less to claim a credit against the SBT equal to 1% of the compensation paid to employees who performed "created jobs" in Michigan for that tax year. The credit would be allowed for tax years beginning after December 31, 2004. In years in which the tax credit allowed exceeded a company's tax liability, the excess could be carried forward as an offset to tax liability in subsequent tax years for 10 tax years, or until the excess credit was used up, whichever came first.

According to the bill, "created jobs" would mean those jobs meeting all of the following criteria:

- The job did not exist in Michigan in the immediately preceding tax year.
- The job represented an overall increase in full-time equivalent jobs in Michigan for the tax year from the total number of full-time equivalent jobs in the State in the immediately preceding tax year.
- The job was not one into which an employee transferred if he or she worked in the State for the taxpayer, or an entity with which the taxpayer filed a consolidated return, in another job before beginning the created job.
- The benefits for the employee in the created job included health care coverage or health insurance.

MCL 208.37f

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

Under the SBT as it currently stands, small businesses that take on additional employees also take on additional tax liabilities, under the standard method of filing. The proposed SBT exemption would mitigate the SBT's punishment of businesses that hire new employees. It would serve to give some incentive to employers with gross receipts of \$10 million or less a year to hire new employees, by offering them a new SBT credit for 1% of the compensation paid to employees who receive health care coverage or health insurance. This would encourage the businesses to build profitability by hiring new workers rather than attempting to increase the productivity of current employees.

The proposed SBT tax credit would take some of the burdens and risks out of hiring additional employees for businesses that may be unsure of whether to increase their workforce. Adding jobs to the Michigan economy also would more than offset the loss in State revenue predicted from the credit because the new employees themselves would pay taxes such as the State income tax and sales taxes.

a partial-year impact, and about \$10.0 million for a full-year impact in FY 2005-06. All single business tax revenue goes into General Fund/General Purpose revenue, so this loss in revenue would affect the General Fund/General Purpose budget. This bill would have no direct impact on local governments.

Fiscal Analyst: Jay Wortley

Opposing Argument

The proposed tax break would constitute a windfall for those companies that were going to hire regardless of the whether the new credit was implemented. Despite the recent downturn in statewide hiring, employers are continuing to hire when they need new workers. The bill would not provide a break only to those companies that would decide to hire based on the new SBT credit. Also, employers' tax savings from the bill would not be significant enough to spur those businesses that have been reluctant to hire into taking on additional payroll.

Response: The projected cost of the bill is disputable because the new hiring from the bill cannot be projected. Furthermore, the bill would send a message that the State is serious about job creation.

Opposing Argument

Many of the companies that would receive the proposed tax break file using the "alternative tax rate" method, which does not take new payroll or benefits into account when determining a company's SBT liability. Therefore, these companies would receive the benefit of the credit despite the fact they do not pay additional SBT taxes on new hires. The alternative rate allows taxpayers to calculate their SBT based on income and is available to all businesses that have less than \$10 million in gross receipts and adjusted business income under \$475,000, and pay any individual officer or shareholder not more than \$115,000.

Legislative Analyst: J.P. Finet

FISCAL IMPACT

Given the effective date of January 1, 2005, and the current estimates of the number of new jobs that will be created in 2005 and 2006, it is estimated that this bill would reduce single business tax revenue by about \$3.3 million in FY 2004-05, which represents

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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.