

Legislative Analysis



SBT: 100 PERCENT SALES APPORTIONMENT FACTOR

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House Bill 4973

Sponsor: Rep. Rick Baxter

Committee: Tax Policy

Complete to 7-11-05

A SUMMARY OF HOUSE BILL 4973 AS INTRODUCED 6-16-05

To determine single business tax (SBT) tax liability, firms with business activity in Michigan and other states must calculate how much of their total business activity is to be apportioned to Michigan. The apportionment formula is based on three factors: payroll, property, and sales. A weighted average of those three factors is used to determine the business activity attributable to Michigan, with sales weighted at 90 percent, and payroll and property each weighted at 5 percent. As an example, a business with 20 percent of its sales, 70 percent of its payroll, and 70 percent of its property in Michigan would apportion 25 percent – $[(.90 \times .20) + (.05 \times .70) + (.05 \times .70)]$ – of its total tax base to Michigan.

House Bill 4973 would amend the SBT Act (MCL 208.45a) to eliminate the payroll and property factors and base apportionment entirely on sales, for tax years beginning after December 31, 2005, except for the portion of the tax base that is derived principally from transportation, financial, or insurance carrier services or specifically allocated. The change would not affect Michigan-only businesses; it would only apply to multi-state businesses. [In general, the bill is likely to reduce liabilities of businesses with payroll and property in Michigan and a high level of out-of-state sales, and increase liabilities of out-of-state businesses that have a relatively high level of sales in Michigan.]

When the SBT was first enacted, each apportionment factor was weighted equally (33 1/3 percent). Public Act 77 of 1991 altered the formula to weight the sales factor more heavily (40 percent) than payroll and property (30 percent each) for 1991 and 1992. For 1993 and subsequent years, Public Act 77 weighted the sales factor at 50 percent, and payroll and property at 25 percent each. Public Act 283 of 1995 weighted the sales factor at 80 percent, and payroll and property at 10 percent each. Public Act 282 of 1995 established the current apportionment formula weighing sales at 90 percent, and payroll and property at 5 percent each.

FISCAL IMPACT:

The bill would reduce GF/GP revenue by an estimated \$43 million.

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