

## SBT: 100 PERCENT SALES APPORTIONMENT FACTOR

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House Bill 4973 as passed by the House

Sponsor: Rep. Rick Baxter

Committee: Tax Policy

Complete to 9-6-05

## A SUMMARY OF HOUSE BILL 4973 AS PASSED BY THE HOUSE 8-31-05

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 –  $[(.90*.20)+(.05*.70)+(.05*.70)]$  – of its total tax base to Michigan.

House Bill 4973 would amend the SBT Act to further phase out the payroll and property factors. Except for the portion of the tax base that is derived principally from transportation, financial, or insurance carrier services or specifically allocated, the apportionment factor would be as follows:

- For tax years beginning after December 31, 2005 and before January 1, 2008, the sales factor would be weighted 95 percent, and the payroll and property factors would be weighed 2.5 percent each.
- For tax years beginning after December 31, 2007, the tax based would be based entirely on sales.

The bill is tie-barred to House Bill 4972, 4980, 5095-5098, and 5106-5108.

MCL 208.45a

## FISCAL IMPACT:

The bill would reduce SBT (GF/GP) revenue by an estimated \$187.0 million between FY 2006 and FY 2010 as follows:

- Fiscal Year 2005-2006: \$21.9 million
- Fiscal Year 2006-2007: \$22.4 million
- Fiscal Year 2007-2008: \$45.7 million
- Fiscal Year 2008-2009: \$47.6 million
- Fiscal Year 2009-2010: \$49.5 million

## **BACKGROUND INFORMATION:**

The bill is part of a larger package of legislation proposed by the House Republican Caucus that would restructure the state's business tax laws, and is in response to Governor Granholm's proposed Michigan Jobs and Investment Act, contained in House Bill 4476. (See the HFA summary of HB 4476 for the details of the governor's proposal.)

The governor's proposal also would base apportionment entirely on the sales factor, apportion the tax base based entirely on the sales factor, except for the portion of the tax base that is derived principally from transportation, financial, or insurance carrier services or specifically allocated, for tax years beginning on or after January 1, 2006.

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.

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