

Legislative Analysis



FEDERAL BUSINESS INTEREST EXPENSE LIMITATIONS

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Senate Bill 1102 (S-2) as passed by the Senate

Sponsor: Sen. Aric Nesbitt

House Committee: Ways and Means

Senate Committee: Finance

Complete to 12-14-20

Analysis available at
<http://www.legislature.mi.gov>

SUMMARY:

Senate Bill 1102 would amend Part 2 (corporate income tax) of the Income Tax Act to exempt persons included in a unitary business group from the federal business expense limitation, under certain circumstances, for purposes of reporting federal taxable income under the act.

Specifically, for purposes of applying the business interest expense limitation¹ under section 163(j) of the Internal Revenue Code,² a person included in a unitary business group would not be subject to the limitation under section 163(j)(1) for purposes of reporting federal taxable income under the Income Tax Act if that person met any of the following conditions:

- The person's business interest expense, or its federal consolidated group's business interest expense, is not limited under section 163(j)(1).
- The person is exempt from the limitation under section 163(j)(3).
- The person does not have business interest properly allocable to a trade or business under section 163(j)(5) and (7) and the related regulations promulgated under the internal revenue code.
- The person is included in a federal consolidated group that meets any of the above conditions.

MCL 206.691

FISCAL IMPACT:

Based on estimates provided by the Department of Treasury, the bill would reduce collections from the corporate income tax by about \$10 million to \$15 million per year. The estimate is based on corporate income tax filings at the federal level, which differs from the state corporate income tax in the treatment of unitary business filers. As such, the actual impact could vary significantly from the estimate.

Any revenue reduction would be borne by the general fund.

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.

¹ <https://www.irs.gov/newsroom/basic-questions-and-answers-about-the-limitation-on-the-deduction-for-business-interest-expense>

² <https://www.govinfo.gov/content/pkg/USCODE-2011-title26/pdf/USCODE-2011-title26-subtitleA-chap1-subchapB-partVI-sec163.pdf>