

**MICHIGAN ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS (MICPA)
TESTIMONY IN SUPPORT OF HOUSE BILL 6286**

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(Bob) Mr. Chairman and members of the Committee, thank you for the opportunity to testify before you today. On behalf of the more than 17,000 members of the Michigan Association of CPAs (MICPA), representing every corner of Michigan's economic marketplace, we are here to express the CPA profession's support of House Bill 6286, a proposal to update the implementation of the Flow-Through Entity Tax in Michigan.

Michigan's new Flow-Through Entity (FTE) tax which was signed into law December 2021 was a welcome tax credit for many business owners across the state. Through the implementation of the tax during this past tax season, our practitioners recognized some nuances in Michigan's law that made the application of this credit difficult for many business owners. House Bill 6286 seeks to address these difficulties and put Michigan's tax law more in line with the 28 other states that have enacted a Flow-Through Entity tax. The bill does not change the intent of the Flow-Through Entity tax but rather addresses implementation concerns.

With me today, I have Mike Merkel, State and Local Tax Partner from Plante Moran and Chair of the MICPA's State and Local Tax Task Force to talk through the key changes in this bill.

(Mike) House Bill 6286 includes two key changes to the current implementation of the Flow-Through Entity Tax. The first is to change the election date to allow the election into the credit to be made by the 15th day of the 3rd month of the subsequent year, allowing business owners to make more informed decisions as to whether electing into this credit would be beneficial for them. Many businesses do not know if they are going to be profitable 74 days into their current year and therefore cannot determine whether they should elect into the tax by the current March 15th deadline for calendar year taxpayers. Michigan, along with only two other states require business owners to make an election at that time. One other state requires the election to be made by the end of the year, with the remaining 25 states all requiring the election to be made with either a timely filed return or by the extended return due date in the subsequent year. Allowing business owners to elect in by the 15th day of the third month of the subsequent year will allow them to make informed decisions and more business owners across the state to take advantage of this tax credit.

This proposal also updates statute to allow a credit by the individual for any taxes paid with a timely filed return, including an extension. Under current law, any payments toward a tax year's tax liability that are made after the 15th day of the third month after the tax year will not qualify for a member credit for the same tax year. Instead, those payments are reported as credits eligible to be claimed for members' immediately succeeding tax year. This causes a mismatching of the income and credits and can lead to penalties and interest assessed against the taxpayer even though payments are made with a timely filed return or extended return. Michigan is the only regime where payments on a timely filed or extended return are not allowed as a credit to the flow-through entity member in the year in which the related income was reported. As the entity will be subject to interest for any payments made after March 31st, and estimated payments are required for the following year, this proposed change would be revenue-neutral for Treasury.

(Bob) Through conversations with Treasury, we understand they have some administrative concerns regarding the implementation of these changes. We are sympathetic to the burden that changes may put on the Department and stand ready to collaborate with Treasury to develop solutions that would benefit taxpayers across the state.

Members of the committee, we want to personally thank you for your time today. Our profession serves as the most trusted advisors to their clients and our members stand united in our commitment to protecting the public interest. Please know that the changes proposed will ensure that more business owners across the state are fully able to take advantage of the tax credit.