



MEMORANDUM

To: Senate Finance Committee

From: Dan Papineau, Michigan Chamber of Commerce

Date: September 2, 2020

Subject: Please Support SB 1035, Partnership Audit Reform

Thank you for your consideration of SB 1035. The Michigan Chamber strongly supports passage of this important legislation and we urge you to vote "Yes".

On November 2, 2015, the United States Congress enacted the Bipartisan Budget Act of 2015 which made significant changes to the way partnerships are audited at the federal level by the Internal Revenue Service (IRS). Instead of auditing a partnership at the individual partner level, the IRS can now audit, assess, and collect any determined tax underpayment directly from a partnership at the entity level. For example, the IRS can now audit 1 partnership company instead of all 1,000 members of the partnership. Obviously, you can see the administrative efficiencies that come about as a result of the change for the IRS.

Due to the change at the Federal level, Michigan, and all states for that matter, will need to figure out how to handle an IRS audit of a partnership that changes a taxpayer's state tax liability under this new scenario. Based on model legislation developed by the Multistate Tax Commission (MTC), SB 1035 establishes a process to rectify situations where federal audits change a taxpayer's state tax liability.

The Michigan Chamber of Commerce supports SB 1035 and the MTC's model legislation for the following reasons:

- Provides uniformity.
- Incorporates the changes needed for Michigan to conform to the new federal audit process.
- Establishes clearer standards for reporting federal audit adjustments to the Michigan Department of Treasury.
- Addresses significant changes made to federal audit procedures such as residency and apportionment.
- Addresses many of the concerns of taxpayers and practitioners, as well as state tax authorities.

The federal audit changes mentioned earlier have been implemented by the IRS for audits starting in late 2019 with completion dates expected in 2021 or later. In order to avoid confusion and make tax compliance as simple and efficient as possible, SB 1035 should be enacted as quickly as possible.

It is important to note that the Michigan Chamber has worked very closely with the Michigan Department of Treasury on this legislation and they have been extremely helpful. The process of adopting a Michigan specific MTC model legislation has been collaborative and almost 1 year in the making.

Please support SB 1035.

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