October 3, 2017

TESTIMONY OF TIMOTHY HANNA IN SUPPORT OF HB 4502

Good afternoon Mr. Chairman and members of the Committee.

My name is Tim Hanna. I serve as Chairman of the Board of the Michigan Council of Self Insured Group Administrators an organization that promotes and advocates on behalf of the 29 self- insured workers' compensation groups in Michigan. I also serve as the administrator for the Michigan Restaurant & Lodging Fund, the Associated Builders & Contractors – Michigan Fund, the Michigan Horticulture Fund, the Michigan Cleaning Fund, the Michigan Grocers Fund, the Michigan Clubs Fund, and the Michigan Food Processors & Distribution Fund.

I represent those aforementioned organizations in support of HB 4502.

By way of background self- insured groups (SIG's) are made up of multiple employers from the same industry that collectively provide workers compensation coverage to roughly 8,000 employers in Michigan. SIG's are regulated by the Department of Licensing & Regulatory Affairs, Workers' Compensation Agency.

Around since the late 1970's SIG's have provided a competitive alternative to the standard insurance marketplace and have helped reduce the cost of workers' compensation coverage for many employers in Michigan. One mechanism keeping them competitive is the ability to return surplus premium not used for administrative expenses or claim costs back to the members upon authorization from the Workers' Compensation Agency. This in essence makes a SIG a "pass through" entity which has been interpreted by the industry to mean they are not subject to the Michigan Corporate Income Tax.

Rather than leaving it open to interpretation and to provide clarity MCSIGA sought and obtained a letter ruling from the Michigan Department of Treasury. That ruling which came out in November declared that SIG's are not subject to the CIT thus confirming our thoughts but leaving open the possibility of someone interpreting it differently in the future.

We therefore feel that passage of HB 4502 is critical to codify the letter ruling obtained from the Department of Treasury and further protect SIG members from double taxation.

Thank you for your consideration.