

Michigan Tax Reform: Changes to Business Taxes

On May 25, 2011, Governor Rick Snyder signed a series of bills related to Michigan tax reform (hereinafter, “the Tax Reform Bills”). These Tax Reform Bills significantly change the state’s business and individual income tax structures. The Tax Reform Bills replace the Michigan Business Tax (“MBT”) with a simpler corporate income tax, reducing the tax liabilities of small business owners throughout the state. Below is a comparison of Michigan’s previous business tax structure (the Single Business Tax), Michigan’s current business tax structure (the Michigan Business Tax), and the business tax structure recently passed by the state legislature (the Corporate Income Tax).

	Single Business Tax	Michigan Business Tax	Corporate Income Tax
Years of tax	January 1, 1976 through December 31, 2007	January 1, 2008 through December 31, 2011	January 1, 2012 and forward
Tax type	Consumption-type value-added tax	Modified gross receipts tax and Business income tax	Corporate income tax
Subject to tax	Any individual, firm, limited partnership, copartnership, partnership, joint venture, association, corporation, receiver, estate, trust, or any other group or combination acting as a unit with business activity in Michigan.	Any individual, firm, limited partnership, limited liability partnership, copartnership, partnership, joint venture, association, corporation, subchapter S corporation, limited liability company, receiver, estate, trust, or any group or combination of groups acting as a unit with business activity in Michigan.	Subchapter C corporations with business activity in Michigan.
Separate or Combined filing	Separate return	Combined filing	Combined filing

Michigan Tax Reform: Changes to Business Taxes (Continued)

	Single Business Tax	Michigan Business Tax	Corporate Income Tax
Filing threshold	Apportioned or allocated gross receipts plus capital acquisition recapture equal or exceed \$350,000.	Apportioned or allocated gross receipts equal or exceed \$350,000.	Apportioned or allocated gross receipts equal or exceed \$350,000.
Tax base	Federal taxable income + Interest on non-Michigan state government obligations + State income taxes + Federal NOL carryover + Capital loss carryover + Depreciation, amortization, or immediate or accelerated write-off related to the cost of tangible assets. + Dividends paid or accrued (to the extent deducted in arriving at Federal taxable income) + Interest paid + Royalties paid + Rent expense related to certain sale-leaseback transactions + Compensation paid + Capital gain related to business activity of individuals (to the extent excluded in arriving at Federal taxable income) – Dividends received – Interest received – Royalties received	<i>Modified gross receipts tax:</i> Gross receipts – Inventory acquired during the tax year – Depreciable assets acquired during the tax year – Materials and supplies – Compensation of personnel supplied to customers (Staffing companies only) – Payments to subcontractors (Certain industries only) – Film rental or royalty payments to a film distributor, a film producer, or a film distributor and producer (Theater owners only) – Payments to independent contractors (Certain industries only) <i>Business income tax:</i> Federal taxable income	Federal taxable income +/- Bonus depreciation adjustment + Domestic production activity deduction + Interest on non-Michigan state government obligations + State income taxes + Federal NOL carryover – Dividends and royalties from foreign sources + Related party expenses for use of intangibles – Interest on Federal obligations + Income from producing oil and gas to the extent included in Federal taxable income – Expenses of producing oil and gas to the extent deducted in arriving at Federal taxable income – Michigan business losses incurred after 12/31/11 (after apportionment)

Michigan Tax Reform: Changes to Business Taxes (Continued)

	Single Business Tax	Michigan Business Tax	Corporate Income Tax
Tax base (Continued)	<ul style="list-style-type: none"> - Rent received related to certain sale-leaseback transactions - Capital loss not deducted in arriving at federal taxable income in the year the loss occurred. +/- Income/losses related to pass-through entities - Income received from small business innovation research grants and small business technology transfer programs - Income received from the Michigan technology tri-corridor SBIR emerging business fund 	<ul style="list-style-type: none"> +/- Bonus depreciation adjustment + Domestic production activity deduction + Interest on non-Michigan state government obligations + State income taxes + Federal NOL carryover - Dividend and interest income from foreign sources +/- Income/losses related to pass-through entities + Related party expenses - Interest on Federal obligations - Self-employment income - Book-tax differences adjustment (available beginning 2015) - Charitable contributions made to the advance tuition payment fund after 12/31/09 - Michigan business losses incurred after 12/31/07 	
Apportionment	Three factor formula using property, payroll, and sales.	Single sales factor.	Single sales factor.
Tax rate	2.35% prior to 10/1/94 2.30% from 10/1/94 to 12/31/98 2.20% from 1/1/99 to 12/31/99	<i>Modified gross receipts tax:</i> 0.80% before surcharge 0.98% after surcharge	6.00%

Michigan Tax Reform: Changes to Business Taxes (Continued)

	Single Business Tax	Michigan Business Tax	Corporate Income Tax
Tax rate (Continued)	2.10% from 1/1/00 to 12/31/00 2.00% from 1/1/01 to 12/31/02 1.90% from 1/1/02 to 12/31/07	<i>Business income tax:</i> 4.95% before surcharge 6.04% after surcharge Surcharge of 21.99% (not to exceed \$6 million of additional tax) scheduled to sunset on January 1, 2017, if Michigan personal income growth exceeded 0% in any one of the three calendar years immediately preceding the 2017 calendar year.	
Credits	<i>Nonrefundable</i> <ul style="list-style-type: none"> • Investment tax credit • Small business credit • Contribution credits • Unincorporated credit • Enterprise zone credit • Michigan historic preservation credit • Low-grade hematite pellet credit • Next energy business activity credit • Pharmaceutical credit • Qualified start-up business credit • Donated automobile credit 	<i>Nonrefundable</i> <ul style="list-style-type: none"> • Compensation and investment credits • Research and development credit • Small business alternative credit • Gross receipts filing threshold credit • Community and education foundations credit • Homeless shelter/food bank credit • NASCAR speedway credit • Stadium credit • Start-up business credit • Public contribution credit • Arts and culture credit 	<i>Nonrefundable</i> <ul style="list-style-type: none"> • Small business alternative credit <i>Refundable</i> <ul style="list-style-type: none"> • None

Michigan Tax Reform: Changes to Business Taxes (Continued)

	Single Business Tax	Michigan Business Tax	Corporate Income Tax
Credits (Continued)	<ul style="list-style-type: none"> • Created jobs credit • “Old” Brownfield credit • Renaissance zone credit • “New” Brownfield credit • MEGA business activity credit <p><i>Refundable</i></p> <ul style="list-style-type: none"> • MEGA employment tax credit • Apprenticeship credit • Hybrid technology research and development • Industrial personal property tax credit • Transferred jobs credit • Next energy payroll credit 	<ul style="list-style-type: none"> • Next energy business activity credit • Renaissance zone credit • Historic preservation credit • Low-grade hematite credit • Entrepreneurial credit • New motor vehicle dealer inventory credit • Large food retailer credit • Mid-size food retailer credit • Bottle deposit administration credit • MEGA federal contract credit • Biofuel infrastructure credit • Individual or family development account credit • Bonus depreciation credit • International Auto Show credit • Brownfield redevelopment credit • Private equity fund credit • Film job training credit • Film infrastructure credit • Anchor company payroll credit • Anchor company taxable value credit <p><i>Refundable</i></p> <ul style="list-style-type: none"> • MEGA research and development credit 	

Michigan Tax Reform: Changes to Business Taxes (Continued)

	Single Business Tax	Michigan Business Tax	Corporate Income Tax
Credits (Continued)		<ul style="list-style-type: none"> • Personal property tax credit • Workers' disability supplemental benefit credit • Next energy payroll credit • MEGA employment tax credit • Historic preservation credit • NASCAR safety credit • Hybrid technology research and development credit • Farmland preservation credit • MEGA federal contract credit • MEGA photovoltaic technology credit • Brownfield redevelopment credit • Film production credit • Anchor company payroll credit • Anchor company taxable value credit 	

Prepared by Brian Cain, CPA, MST of Taylor & Morgan, P.C. You may contact Brian via e-mail at brian@tmcpa.com or at either of the following:

Taylor & Morgan, P.C.
 2302 Stonebridge Drive, Building D
 Flint, Michigan 48532
 Ph.: (810) 230-8200
 Fax: (810) 230-8203

Taylor & Morgan, P.C.
 3150 Livernois Road, Suite 150
 Troy, Michigan 48083
 Ph.: (248) 688-9399
 Fax: (248) 688-9397

Michigan Tax Reform: Changes to Business Taxes (Continued)

* * * * *

ANY TAX ADVICE IN THIS COMMUNICATION IS NOT INTENDED OR WRITTEN BY TAYLOR & MORGAN TO BE USED, AND CANNOT BE USED, BY A CLIENT OR ANY OTHER PERSON OR ENTITY FOR THE PURPOSE OF (I) AVOIDING PENALTIES THAT MAY BE IMPOSED ON ANY TAXPAYER OR (ii) PROMOTING, MARKETING OR RECOMMENDING TO ANOTHER PARTY ANY MATTERS ADDRESSED HEREIN.

Any advice in this communication is limited to the conclusions specifically set forth herein and is based on the completeness and accuracy of the stated facts, assumptions and/or representations included. In rendering our advice, we may consider tax authorities that are subject to change, retroactively and/or prospectively, and any such changes could affect the validity of our advice. We will not update our advice for subsequent changes or modifications to the laws and regulations, or to the judicial and administrative interpretations thereof.

The advice or other information in this document was prepared for the sole benefit of Taylor & Morgan's client and may not be relied upon by any other person or organization. Taylor & Morgan accepts no responsibility or liability in respect of this document to any person or organization other than Taylor & Morgan's client.