

The Michigan Business Tax (MBT) establishes a new two-pronged business tax and various tax credits effective January 1, 2008. MBT replaces the Single Business Tax (SBT) that is repealed effective December 31, 2007. The Michigan Business Tax includes a Modified Gross Receipts Tax with a rate of .8% and a Modified Business Income Tax with a rate of 4.95%. A surtax of 21.99% of the combined Modified Gross Receipts and Business Income Tax is then added. Businesses with at least \$350,000 in Michigan-sourced gross receipts will be subject to the new tax. Unitary business groups with combined Michigan-sourced gross receipts of at least \$350,000 will be required to file a combined tax return. A unitary business group includes a group of businesses that is controlled by one member of the group and that has activity or operations that flow between the businesses. Unused carryovers of most credits claimed under SBT will be applied against tax liabilities for the 2008 and 2009 tax years. If not used by 2009, the credits are no longer available.

## **Michigan Business Tax Assessment**

The Business Income Tax (BIT) rate is 4.95% on every taxpayer (or unitary group) with business activity in Michigan. The base of the tax starts with federal taxable income or a comparable measure of income for partnerships and S Corporations, subject to various adjustments.

The Modified Gross Receipts Tax (MGRT) will be .8% on a base of gross receipts less purchases from other firms. Purchases from other firms include inventory purchased during the tax year, capital expenditures, operating supplies, most payments to subcontractors by construction contractors and floor plan interest for new vehicle dealers. Both the Business Income Tax and Modified Gross Receipts Tax will be apportioned to Michigan based on a business' sales in Michigan divided by its total sales everywhere.

Once the BIT and MGRT are calculated, a surtax of 21.99% of the total is added, before application of the credits reflected below.

## **Tax Credits**

The MBT also provides for a number of tax credits, many of which are limited to specific industries.

- Compensation Credit will equal .296% of compensation paid in Michigan for 2008, and .37% thereafter. The Investment Credit will equal 2.32% of the cost of net new capital assets located in Michigan for 2008, and 2.9% thereafter. The combined amount a taxpayer can claim under the two credits cannot exceed 50% of the combined BIT and MGRT liability, before addition of the surtax and before credits for 2008. The limit is 52% thereafter.
- An "alternative tax" for small businesses in the form of a credit reduces the total net tax to 1.8% of adjusted business income. Eligibility for the alternative tax is phased out for businesses with gross receipts between \$19 million and \$20 million, officer compensation between \$160,000 and \$180,000, and adjusted business income greater than \$1.3 million.
- Two new Research and Development Credits; a credit for taxpayers with Michigan gross receipts between \$350,000 and \$700,000; and a credit equal to 35% of the taxes paid on industrial personal property.
- Other credits include:
  - A special limited Michigan Entrepreneurial Credit
  - A Culture Credit for businesses that contribute more than \$50,000 to a municipal or nonprofit art, historical, or zoological institute
  - A Motor Sports Entertainment Complex Credit and a Sports/Entertainment Facility Credit
  - Special compensation credits for certain large retail establishments headquartered in Michigan
  - A credit for new motor vehicle dealers for vehicle inventory purchases.

## **Tax Credits Continued and/or Expanded**

Many credits currently available under the SBT will continue and in some cases expand under the MBT such as:

- Michigan Early Stage Venture
- Food Bank and Homeless Shelter Contribution
- Workers' Disability Compensation
- Michigan Economic Growth Authority (MEGA)
- Community Foundation Contribution
- Public Contribution
- Historic Preservation
- Renaissance Zone
- Next Energy
- Brownfield

## **Special Industry Tax**

Special tax calculations apply to insurance companies and financial institutions. Tax on insurance companies will be assessed 1.25% on gross direct premiums written on property or risk located in Michigan. Financial institutions pay a franchise tax on the value of their average net capital stock at 0.235%. Certain adjustments and credits may also apply. The surtax on financial institutions is 27.7% for 2008, and 23.4% thereafter.

## **Personal Property Tax Relief**

Personal Property Tax relief is accomplished by a 24-mill exemption from the school property tax on industrial personal property and a 12-mill exemption for commercial personal property.

## **Resources**

The Michigan chapter of the National Federation of Independent Business has created an MBT Tax Calculator to estimate the impact of the new tax on individual businesses. Visit their Web site at: [www.nfib.com/page/homeMI.html](http://www.nfib.com/page/homeMI.html) to download the MBT Tax Calculator.

The Michigan Department of Treasury has established an MBT website, [www.michigan.gov/mbt](http://www.michigan.gov/mbt), which includes an MBT estimator and a question and answer forum.

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