



State and Local Tax Newsletter 2006-3



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EHTC State and Local Tax Services

INCOME & FRANCHISE TAX

- Tax Minimization Studies
- Business Structure Reviews
- Allocation and Apportionment Planning
- Combined, Consolidated, & Unitary Planning
- Nexus Studies
- Amended State Tax Returns from IRS Audits
- Single Business Tax Training

SALES & USE TAX

- Reverse Audits
- Compliance System Review
- Direct Pay & Compliance Agreements
- Exemption Certificate Documentation
- Industrial Processing / Manufacturing Exemption
- Utility Studies
- Nexus Studies
- Sales & Use Tax Training
- Transportation Company
- Procurement Company

PROPERTY (AD VOLEM) TAX

- Real Property Tax Reviews
- Personal Property Tax Reviews

TAX AUDIT & APPEALS

- Sales & Use Tax Audit Defense & Appeals
- Single Business Tax Audit Defense & Appeals
- Property Tax Audit Defense & Appeals
- State and Local Tax Litigation Support
- Merger & Acquisition Due Diligence Reviews
- Voluntary Disclosure

BUSINESS INCENTIVE SERVICES

- Business Relocation &

SBT Replacement Introduced Today

GRAND RAPIDS, MI – Tuesday, November 28, 2006 – Sources in Lansing have told us that a replacement to the Michigan Single Business Tax will be introduced. Also, we have heard hearings will be held on Wednesday regarding the plan to replace over \$1.9 billion in lost revenue.

Last week Tuesday, Governor Jennifer Granholm said she will propose a Single Business Tax replacement this week in hopes the legislature will approve it in the lame duck session currently slated to end December on 14th. Political rhetoric aside, there are very good reasons to pass a replacement tax now. However, to craft a completely new business tax in two weeks seems overly optimistic.

What Will The Governor's Plan Look Like?

The Governor says it would incorporate the principles of her former SBT restructuring plan with a low rate and a broad base. She said it will not be a warmed-over version of the SBT. I'm not so sure.

We believe the Department of Treasury is heavily leaning toward a plan that incorporates a "factor" tax. They may consider a gross receipts tax or even a combination of both. Whatever is proposed, it will be broad based with a low rate. WHY?

A broad based low rate tax has significant advantages for both state government and business. The broad base guarantees government a steady flow of revenue devoid of the fluctuations associated with taxes based on income. The broad tax base, if based on gross receipts in whole or part, provides government with a built in inflation adjustment. The low rate would make the tax an insignificant factor in business decisions. The low rate would also render useless tax avoidance schemes which undermine the tax.

Back to the "factor" tax. A nebulous term, it involves a broad tax base comprising four factors; property, payroll, sales and income to be weighted, apportioned or allocated. No other states currently use a "factor" tax.

Stay tuned, there will be more to come.

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Edward S. Kisscorni is the Director of State and Local Taxation with EHTC in Grand Rapids. Ed has over 35 years of experience in Michigan state and local taxation as an auditor with the Michigan Department of Treasury, in the tax department of a large international CPA firm, as a sole practitioner, and in the state and local tax group of a national CPA firm.

He currently serves on the Treasury Business Advisory Group and other organizations.

Ed's practice areas include Consultation and Planning and Litigation Support in the areas of State and Local Taxation and Accountant's Legal Liability.

STATE AND LOCAL TAX WHITEPAPERS

MICHIGAN SINGLE BUSINESS TAX

- History
- Compensation
- Capital Acquisition Deduction
- Agricultural Exemption
- Entities Under Common Control
- Combined or Consolidated Returns
- Jurisdictional Standards
- Apportionment & Allocation
- Foreign Taxpayers
- Small Business Credit
- Investment Tax Credit
- Michigan Economic Growth Authority Credit (MEGA)
- Brownfield Zone Credit
- Renaissance Zone Credit
- Historic Resource Credit