



State and Local Tax

Newsletter 2006-4



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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 VOLOREM) 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 &

Governor's SBT Replacement Plan Dead, for Now

GRAND RAPIDS, MI – Wednesday, December 13, 2006 – It appears the Michigan Business Tax (MBT) proposal introduced a couple of weeks ago is dead for now. On Wednesday November 29th State Treasurer Robert J. Kleine presented the plan to the Senate Finance Committee. (See PowerPoint Presentation) In the wake of his testimony, several business groups articulated concern over the plan which covered 122 pages of legislation. The business groups voiced concern that such a large bill could not be completely digested and passed in the lame duck session of the legislature. The State Treasurer has promised to rework the proposal and return after the first of the year with a new proposal.

The MBT As Proposed

The MBT is commonly referred to as a form of "factor tax". The label comes from the three factors that make up the tax base. The three factors are gross receipts, assets of the taxpayer and business income. A tax rate of .125% is applied to the gross receipts and asset factors. The business income factor is taxed at a 1.8% effective tax rate.

Gross receipts are the total gross receipts of a business for goods sold or services rendered during the tax year. The definition and the exemptions are similar to that used in the SBT.

Assets include all assets except inventories, goodwill, treasury obligations and tax exempt securities.

Business income is the profit earned from engaging in a business activity similar to the definition contained in the SBT to include federal taxable income plus the section 199 deduction.

Apportionment for the MBT would be based on one single factor, sales. The nexus standard to be used would be the Commerce Clause nexus standard similar to that in use for the SBT.

Small businesses with gross receipts under \$350,000 would not be subject to tax. The tax would be phased in for businesses with gross receipts between \$350,000 and \$700,000 thus eliminating the "cliff". A business with gross receipts under \$10 Million would be allowed to pay a tax equal to 1.8% of adjusted business income. The proposal does not include any form of minimum tax.

The MBT retains the *MEGA* credit, the *Brownfield* credit, the *Historic Preservation* credit and the *Renaissance Zone* exemptions. All preexisting commitments will flow over into the new tax for the same number of years. In addition to retaining the existing incentives, the MBT would create a new credit for research and development for an established Michigan business to help fund R&D innovation and development. The credit would be capped at \$500,000.

The proposal also amends the school code, the state education tax act, the general property tax act and the industrial facilities tax act to exempt from the personal property tax the 6-mill state education tax

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

STATE AND LOCAL TAX WHITEPAPERS