



State and Local Tax Newsletter

2007-3



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MICHIGAN LEGISLATURE DEADLOCKED ON PLAN TO REPLACE THE SBT Two New Proposals

GRAND RAPIDS, MI – Friday, April 27, 2007 – It seems hard to believe that it's almost May and the Michigan legislature has not found a replacement for the Single Business Tax which expires at the end of this year. There is no shortage of plans to pick from. This week two new plans surfaced.

The administration plan introduced on March 1st has gone nowhere and is dead. House Democrats have introduced a plan substitute for the administration plan. The Governor has endorsed the House Democratic plan. The Senate Republican BEST plan has gained support in only the Senate. It also has been reworked. The Michigan State Chamber of Commerce plan has not gained traction anywhere.

The 6+6 Plan

The Michigan Automobile Dealers Association last week unveiled a plan to restructure Michigan taxes without replacing the SBT. In addition to not replacing the SBT, the 6+6 Plan would reduce the Michigan Individual Income Tax rate from 3.9% to 2.9% and provide a credit for Personal Property Tax paid on the 24 mills that make up the K-12 Education Tax. The PPT credit would be claimed against the sales and use tax liability.

The 6+6 Plan would replace the lost revenue with an expanded sale and use tax on goods and services. The current sales and use tax base would be expanded to include services.

The plan would:

- Maintain the resale exemption.
- Maintain the industrial process exemption.
- Maintain the health care and personal grooming (i.e., haircuts, etc.) exemption.
- Maintain the mortuary services exemption.
- Maintain the non-profit exemption.
- Exempt real estate transactions and certain real estate services.
- Exempt certain retirement financial services.
- Exempt valid warranty service,
- Exempt certain legal services on individual estates and other retirement planning, probate, etc.
- Professional services performed outside of Michigan (i.e., OH, IN, etc.) and used/consumed in Michigan, would be subject to the Michigan Use 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

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About EHTC

Echelbarger, Himebaugh, Tamm & Co., P.C. (EHTC), a professional corporation was established in 1977 by Dennis M. Echelbarger. Since that time, our Firm has grown to become one of the largest, most successful, local accounting firms in the Greater Grand Rapids, Michigan area, and we are a recognized leader in the business community. Our success is based on building partnering relationships with our customers. We are large enough to serve a wide diversity of customers but small enough to maintain personalized attention.

EHTC's professional team is highly trained to provide technical and consulting services in the areas of accounting, taxes, and strategic planning to nonprofit, profit and service organizations and related entities.

Minimizing your tax liability requires careful, advance planning rather than preparing tax returns as deadlines near. Our tax professionals provide complete tax services and are assisted by our extensive tax library and the latest technology.

We pay careful attention to your unique circumstances such as your current requirements and your plans for the future. We then recommend a plan that best suits your needs while minimizing financial risk.

House Democratic Plan

This week the Democrats in the House of Representatives will introduce a tax restructuring plan. The main movers or proponents of the plan are Representative Andy Dillon, Speaker of the House and Representative Steve Bieda, Chair of the House Tax Policy Committee.

The proposal would replace both the Single Business Tax and the Personal Property Tax with an income tax and net worth tax applied to all business entities with gross receipts in excess of \$350,000. The tax would be applied to either a "person" or a "unitary business group" with business activity in Michigan. Taxpayers with less than \$350,000 in gross receipts would not pay the tax. The tax would be phased in for taxpayers with gross receipts in excess of \$350,000 up to \$700,000 to eliminate the cliff.

The net income tax rate is estimated at 7.95% computed on a unitary basis with add-backs for non Michigan government interest and dividends, state income taxes and foreign royalties and dividends. Members of a unitary group could eliminate inter-company transactions.

The net worth tax rate is estimated at .40% on the unitary net worth computed on a GAAP basis.

Apportionment would be based on a single factor sales formula sourced to Michigan based on market. The nexus standard would be Federal Law 86-272.

The total tax, income tax + net worth, is reduced by up to 75% of the liability by credits for Michigan compensation (1.5%) and investments (3.5%). A 5% research credit based on Michigan qualified research expenses is not refundable and can be carried forward for 20 years.

Existing MEGA, Brownfield & Renaissance Zone credits and business loss and ITC carryovers from the SBT survive. New MEGA, Brownfield & Renaissance Zone credits are permitted. Other credits currently in the SBT will be retained.

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MICHIGAN SALES AND USE TAX

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- Exemptions from the Michigan Sales Tax
- Sourcing of Sales
- Records & Record Keeping Requirements
- Direct Pay Authorization
- Compliance Agreements
- Michigan Use Tax
- Exemption Documentation Requirements
- Construction Contractors
- Contractor vs. Retailer
- Service vs. Tangible Personal Property
- Industrial Processing
- Extractive Operations
- Containers, Cartons & Wrapping Materials
- Health Care
- Computer Software
- Rentals
- Taxability of Interstate Motor Carrier Property
- Discounts, Rebates, & Coupons
- Drop Shipments
- Delivery Services
- Food for Human Consumption
- Interstate Commerce
- Isolated Sales



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