



# State and Local Tax Newsletter 2007-4



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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 & Expansion Services
- Tax Credits, Exemptions, & Abatements
- Grants, Financing, & Infrastructure Assistance

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## WHAT WILL REPLACE THE SBT?

### After months of uncertainty, two plans emerge.

GRAND RAPIDS, MI – Monday, May 7, 2007 – Last week both the House and Senate reported out bills that would replace the Single Business Tax which expires after this year. The business community had become very nervous with the lack of movement by the legislature. The governor had proposed a plan that included a two percent tax on services which failed to gain support. Various business groups had proposed plans that didn't gain support. There was talk of no replacement which would create a large budget hole or extending the current SBT.

Finally, last week Wednesday, May 2<sup>nd</sup>, the House passed House Bill 4367 by a 61 to 48 margin. Not to be outdone, the Senate on Thursday, May 3<sup>rd</sup> passed Senate Bill 94 by a 20 to 17 margin. There are similarities in the two bills, which is encouraging. However, there are significant differences which will need to be reconciled in conference committee. Whatever comes out of the conference committee will need the approval of the governor. The governor previously stated support for the House version.

### House Bill 4367 – The House Democratic Plan

HB 4367 would replace the SBT with a combination business income tax at a 6.95% rate and a net worth tax at a 0.488% rate. The tax would apply to businesses with gross receipts over \$350,000 with no minimum tax. It includes a Small Business Credit similar to the SBT version.

The plan also includes relief from the personal property tax. All property classified as either industrial or commercial would be exempt from the 18 mill local school operating millage and the 6 mill State Education Tax. In addition, property classified as industrial could claim a 50% credit for personal property taxes paid.

Most of the credits currently in the SBT would be carried over to the new tax. Any unused credits could be used against the new tax. In addition, HB 4367 would create three new credits; 0.8% of the taxpayer's compensation paid to employees in Michigan, 3.3% of a taxpayer's investment in depreciable tangible assets in Michigan and a 4% research credit based on Michigan "qualified research expenses".

### Senate Bill 94 – The Senate BEST Plan

SB 94 would replace the SBT with a combination business income tax at a 1.5% rate and a modified gross receipts tax at a 0.54% rate. The tax would apply to businesses with gross receipts over \$350,000 with no minimum 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.

Relief is provided to small businesses with gross receipts over \$350,000 and under \$15 million. These qualified businesses could elect to pay either the income tax or the modified gross receipts tax.

SB 94 would provide a 25% credit for taxes paid on all industrial and commercial personal property acquired within the past 5 years. All new purchases of personal property after 2007 would be exempt.

A number of credits currently in the SBT would be carried over to the new tax. These credits include the Michigan next energy credits, Michigan Economic Growth Authority (MEGA) credits, Renaissance Zone exemptions and the Michigan Early Stage Investment tax vouchers. In addition, the bill would create three other tax credits.

The Michigan Entrepreneurial Credit would equal 100% of an eligible business's tax liability. The Smoking Ban Credit would equal 10% of an eligible business's tax liability. There is also a headquarters jobs credit.

As with most tax legislation, the devil is in the details. Attached to this newsletter are the complete versions of the two bills as passed by the House and the Senate.

### Prospects For Passage

Although the two tax bills have some very similar provisions, there is one significant difference. The House bill is revenue neutral although a large portion of the tax would be exported to out-of-state businesses. The Senate bill represents a net tax cut of approximately \$600 million.

Only 5% of Michigan taxpayers would have a net tax increase under the Senate bill. The House bill would increase taxes for approximately 21% of Michigan businesses according to the Senate Majority Policy Office.

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## STATE AND LOCAL TAX WHITEPAPERS

### MICHIGAN SALES AND USE TAX

- Michigan Sales Tax
- 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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