



State and Local Tax Newsletter 2007-5



Ed Kisscorni, CPA/MBA
edk@ehtc.com

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 VALOREM) 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

www.ehtc.com

AGREEMENT ON SBT REPLACEMENT? The Single Business Tax to be Replaced by a Triple Business Tax, Maybe

Grand Rapids, MI – Friday, June 8, 2007 – There is word from Lansing that a tentative agreement has been reached between House Democrats, Senate Republicans and the administration to replace the Single Business Tax, set to expire at the end of this year, with a three factor tax. Several business groups have proposed replacements for the Single Business Tax. However, the business community never got behind one proposal. Now the legislature, at least the group working on the replacement, may be settling on a three factor tax that no business group likes.

House Bill 4367, which passed the House on May 2, 2007, would have replaced the Single Business Tax with a combination business income tax at a 6.95% rate combined with a net worth tax at a 0.488% rate. Senate Bill 94, which passed the Senate on May 3, 2007, would have replaced the Single Business Tax with a business income tax at a 1.5% rate combined with a modified gross receipts tax at a 0.54% rate. A House/Senate working group has been meeting since early May looking for common ground. Finally, this week a plan emerged that may have a chance to become law.

Over the weekend, the Department of Treasury will crunch the numbers to determine the rates to be applied to the three factors. An announcement is expected on Tuesday the 12th. Then it will take about a week for the Legislative Services Bureau to draft the bill language. It could be the end of the month before actual legislation is ready for passage.

The proposal is far from becoming law. After rates are announced and other provisions of a very complicated law become known, business and industry groups will crunch their numbers to ascertain the effect of the new tax on their industry or individual company. There will be winners and losers as the state transitions from the Single Business Tax to the Triple Business Tax on a revenue neutral basis. The losers will undoubtedly sound off to legislators.

The three factors that make up the Triple Business Tax are a business income tax, a net worth tax and a modified gross receipts tax.

Business Income Tax - The income tax would be imposed on business income, with certain adjustments and after allocation and apportionment, on every taxpayer with "business activity" within the state, unless prohibited by federal P.L. 86-272.

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

[Click here to unsubscribe](#)



State and Local Tax Newsletter

Page 2

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.

Business income generally means that part of federal taxable income that is derived from business activity. The tax base of a unitary business group would be the sum of the business income tax base of each person included in the group, less any items of income and related deductions from transactions between persons included in the group.

Net Worth Tax - A new tax on business net worth would be created. This tax would be assessed on a business's total assets less total liabilities, and all businesses with activity in Michigan would be subject to the tax. Net worth would generally be a firm's total assets less total liabilities, computed in accordance with generally accepted accounting principles.

Modified Gross Receipts Tax – The third new tax would be imposed on business gross receipts with a deduction for purchases of inventory and other purchases of goods.

Exemptions and Credits – The legislature intends to bring forward into the new tax law most of the exemptions and credits currently in the existing Single Business Tax. In addition, new credits would be established for compensation paid to Michigan employees, investment in Michigan assets and research and developments costs incurred in Michigan. Special relief provisions for small business would also be part of the package.

The details of the package, including rates, are not available. It may a couple of weeks before all the details are known. Of special concern are the nexus and apportionment issues as well as questions on the unitary approach. A detailed definition of gross receipts needs to be part of the law.

This law has a long way to go before enactment. However, there is initial optimism that a replacement is at hand.

Our firm provides the information in this e-newsletter for general guidance only, and does not constitute the provision of legal advice, tax advice, accounting services, investment advice, or professional consulting of any kind. The information provided herein should not be used as a substitute for consultation with professional tax, accounting, legal, or other competent advisers. Before making any decision or taking any action, you should consult a professional adviser who has been provided with all pertinent facts relevant to your particular situation. Tax articles in this e-newsletter are not intended to be used, and cannot be used by any taxpayer, for the purpose of avoiding accuracy-related penalties that may be imposed on the taxpayer. The information is provided "as is," with no assurance or guarantee of completeness, accuracy, or timeliness of the information, and without warranty of any kind, express or implied, including but not limited to warranties of performance, merchantability, and fitness for a particular purpose.

[Click here to unsubscribe](#)

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



Echelbarger, Himebaugh, Tamm & Co., P.C.
5136 Cascade Rd. SE, Ste. 2A
Grand Rapids, MI 49546
616-575-EHTC (3482)
www.ehtc.com