



State and Local Tax Newsletter

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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

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- Compliance System Review
- Direct Pay & Compliance Agreements
- Exemption Certificate Documentation
- Industrial Processing / Manufacturing Exemption
- Utility Studies
- Nexus Studies
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- Procurement Company

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- Personal Property Tax Reviews

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

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

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REPLACEMENT OF SINGLE BUSINESS TAX SET A Modified Gross Receipts Tax Combined With a Business Income Tax Will Replace the Single Business Tax

GRAND RAPIDS, MI – Thursday, June 14, 2007 – At a joint press conference on Wednesday, Michigan Governor Jennifer Granholm, Senate Majority Leader Mike Bishop (R – Rochester Hills) and Speaker of the House Andy Dillon (D – Redford Township) announced an agreement to move forward with the following framework for replacing the Single Business Tax:

Tax Base

Approximately two thirds of the tax base will be the modified gross receipts tax or a tax on gross margins comprised of gross receipts minus purchases of tangible personal property from other firms. The tax rate will be 0.8%. The other one third of the tax base will be a business income tax imposed at a 5.0% tax rate.

Personal Property Tax Relief

The replacement package will include substantial personal property tax relief, however, short of complete repeal. All personal property assessed and classified as “industrial” will be exempt from the 18 mill school operating tax and also exempt from the 6 mill state education tax. In addition, property classified as “industrial” will receive a refundable credit of 35% of the remaining liability.

Property classified as “commercial” and the telecommunications industry will enjoy a 12 mill exemption from the personal property tax.

Credits

The new tax will include three credits that can be claimed only on Michigan business activity. The Investment Tax Credit (ITC), similar to the current SBT credit will be available on property purchased for use in a Michigan business activity. A Compensation Credit will be available for compensation paid to a Michigan employee. The third credit is a research and development credit for Michigan R&D.

The Investment Tax Credit and the Compensation Credit are capped at a combined 65%. The R&D credit is capped at 75%, that is, another 10% of tax liability if the other two credits are maximized.

Small Business Provisions

Firms with \$350,000 or less in gross receipts will not pay the tax. The tax will be phased in for firms with gross receipts over \$350,000 but under \$700,000.

Firms qualifying for the new Small Business credit will be able to pay an alternate tax equal to 1.8% of income. Firms qualify for the credit if gross receipts are \$18 million or less with a phase out up to \$20 million. There is an officer compensation disqualifier of \$160,000 to be phased out up to \$180,000 and a total business income disqualifier of \$1.3 million.

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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



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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.

Revenue Trigger

If revenues exceed the cap, 50% is deposited into the budget stabilization fund and 50% is refunded to business taxpayers.

The cap is:

Year 1 - 5% over '08 SBT estimate

Year 2 and 3 - Prior year cap + personal income growth + 1%

Year 4 and beyond - No trigger

Special Industries

The Insurance industry will be taxed at 1.25% of premiums. This rate represent an increase up from 1.07%. Financial institutions will be taxed on capital.

The vehicle bill for the Michigan Business Tax (MBT) will be Senate Bill 94. It is estimated to bring in \$1.9 billion in revenue. Out-of-state firms are expected to see a \$100 million tax increase due to the exporting mechanisms and credits. Legislation encompassing this agreement is expected to be drafted and begin moving through the legislative process at the beginning of next week. The plan is to take testimony next week, tweak any remaining issues and place the bills on the Governor's desk before June 30th. Votes on the legislation make take place as early as next week. As with most things, and certainly with an issue as complex as this one, the details are extremely important.

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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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