

# Michigan Business Tax Issues

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# Single Business Tax Background

- 1975 to 2007
- Phase-out began in 1999, elimination for tax years after 12/31/07
- Consumption-type VAT, additive base
- Apportionment issues & cases
- \$1.9 billion in FY 07, 22% of GF, 4.6 % of total state budget

# Single Business Tax Battleground

- Fiscal & Economic Advantages

  - Stability

  - Wide tax base, but concentrated revenue

  - Investment incentive

- Reasons for Opposition

  - Misunderstanding, additive base

  - Applicability to all businesses

  - Hard to avoid

# State Fiscal Circumstances

- Approximately \$1 billion projected deficit for 2006-07 FY
- Balanced budget requirement
- Agreement on \$340 million Exec Order
- Approximately \$3 billion projected deficit for 2007-08 FY

# Governor's Proposal (1)

- Michigan Business Tax
  - Gross receipts, .125%, 100% sales factor
  - Business net income, 1.875%, 100% sales factor
  - “Assets,” .125%, 100% sales factor
    - “Assets” include land; buildings (less depreciation); depletable assets (less depreciation); intangible assets; loans; cash, notes and accounts receivable
  - \$350,000 GR exemption for MBT, with phase out

# Governor's Proposal (2)

- Personal property exempted from state education tax and local school tax (46% reduction)
- Other smaller business tax adjustments
- Net “business” tax reduction, \$500 million

# Governor's Proposal (3)

- Excise tax on selected services, 2%, \$1.5 billion
  - Mix of consumer and business purchases
    - Personal services, amusements, transportation, repair, construction, professional services, real estate & investment service, various business services
  - Health care, education, social assistance services, insurance & banking exempt

# Michigan Senate Proposal (1)

- Gross receipts minus purchases of “inventory” and capital expenditures, .54%
  - Approaches consumption VAT
  - 100 percent sales factor
  - GR < \$350k and > \$100k pay \$100
  - GR < \$100k pay zero
  - Various tax credits (new employment or investment, personal property tax)

# Michigan Senate Proposal (2)

- Net income, 1.5%
  - For firms with GR > \$15 million
  - In addition to the GR tax
  - 100 percent sales factor
- \$1.56 billion, real, limit
- New industrial personal property exempt from personal property tax

# Alternative Business Tax Proposals

- Michigan Chamber of Commerce
  - Business net income, 3.05%
  - Gross receipts, .48%
    - \$350,000 exemption
    - \$150 minimum, \$2 million maximum
  - 50% credit for personal property tax
  - Net tax reduction, \$500 million

# Alternative Business Tax Proposals

- Detroit Chamber of Commerce
  - Prefers no business tax
  - If necessary, proposes gross receipts
  - Tax table, rather than rates
  - \$350k exemption
  - Amounts vary from \$1,000 to \$1,000,000
  - Net tax reduction, \$400 million

# Alternative Business Tax Proposals

- Grand Rapids Chamber of Commerce
  - Gross receipts minus purchases of tangible personal property (i.e. materials)
  - Approaching a gross income VAT
  - Eliminate personal property tax
  - Net tax reduction, \$400 million
  - State spending reductions identified

# Issues

- Magnitude of business tax reduction
- Overall tax revenue and deficit
- Tax base definition
- Attraction of “gross receipts”
- Winners and losers
  - By sector
  - Treatment of small & large firms

# More Information

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