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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More Information

• “Proposals for Replacement of the SBT and Personal Property Tax Relief,” Michigan Chamber of Commerce.
