

THE MICHIGAN BUSINESS TAX

In 2008, Michigan implemented the Michigan Business Tax (MBT) to replace the Single Business Tax (SBT). Under the MBT, businesses (including small businesses and manufacturers) are encouraged to invest in Michigan through numerous tax credits and a lower overall tax burden.

The MBT is based on business income and gross receipts, plus an added surcharge. It also includes a number of tax credits and incentives. The recent tax reform also significantly reduced property taxes, creating certain exemptions for industrial and commercial personal property. Small business growth is also encouraged under the MBT; a business with gross receipts of \$350,000 or less does not have to file a tax return or pay any tax, and other credits exist for smaller Michigan firms.

The Business Income Tax is assessed on business activity that takes place in Michigan. The tax base starts with federal taxable income or a comparable measure of income for partnerships and S corporations. The tax rate is 4.95%.

The Modified Gross Receipts Tax is based on a company's gross receipts, less "purchases from other firms." "Purchases from other firms" include inventory purchased during the tax year, capital expenditures, and certain materials and supplies. The rate of this tax is 0.8%. Special provisions reduce the tax base for a variety of taxpayers including auto dealers, construction contractors, self-employed individuals, and members of partnerships and limited liability companies. A portion of certain taxes collected by a business are included in gross receipts until 2012.

A surcharge is applied to the apportioned business income tax and gross receipts tax before credits. The rate is 21.99%.

APPORTIONMENT

Both the Business Income Tax and Modified Gross Receipts Tax are apportioned to Michigan based on sales. The apportionment factor equals a business' sales in Michigan divided by its total sales everywhere.

MBT HIGHLIGHTS

Business Income Tax	4.95%
Gross Receipts Tax	0.8%
Surcharge: Applied to apportioned income and gross receipts tax before credits	21.99%
Apportionment Factor	100% Sales
Filing Threshold	\$350K
Investment Tax Credit ¹	2.9 % ²
Compensation Credit ¹	0.37% ²
R&D Credit ¹	1.9% ²
Industrial Personal Property Tax Credit ³	35%

1. The combined ITC and Compensation Credit cannot exceed 50% of tax liability in 2008 and 52% in tax years thereafter. The combined ITC, Compensation Credit, and R&D credit cannot exceed 65% of liability in 2008 and beyond.
2. These are the permanent credit ratios beginning in 2009. Initially, the 2008 credits are lower—the ITC at 2.32%, the Compensation Credit at .296%, and R&D Credit at 1.52%.
3. Not available on leased personal property.

INSURANCE AND FINANCIAL INSTITUTIONS

Under the MBT, insurance firms pay a 1.25% tax on apportioned gross direct premiums (with adjustments) and financial institutions pay 0.235% on the five-year average value of net capital. Insurance firms are not subject to the surcharge. Financial institutions pay the surcharge at 27.7% in 2008 and 23.4% thereafter. Insurance firms and financial institutions are eligible to claim the compensation credit.

TAX CREDITS

The MBT offers incentives for new and existing firms. Credits are allowed for Michigan-based compensation costs, capital purchases, R&D expenditures, and property taxes paid on purchased industrial personal property. A "phase-in credit" eases the tax impact for small businesses with gross receipts between \$350,001–\$700,000 and the Small Business Alternative Credit allows smaller businesses to pay an alternative 1.8% tax on adjusted business income.

The MBT contains other incentives as well. Tax credits for Brownfield redevelopment, locating in a Renaissance Zone®, creating a significant number of jobs, investing in the creation of alternative energy, or giving to charity are also available.

PERSONAL PROPERTY TAX RELIEF

As part of the recent tax reform package, firms receive an additional reduction on their property tax bill. Taxes are automatically reduced by 24 mills for industrial personal

property which is owned by the taxpayer. Combined with the 35% MBT tax credit, manufacturers will on average experience a 65% reduction in personal property taxes. Commercial personal property receives an automatic reduction of 12 mills, or a 23% reduction on average.

For more information, contact the Michigan Economic Development CorporationSM (MEDC) Customer Assistance Center at 517.373.9808 or visit the Department of Treasury Web site at michigan.gov/MBT.