Just Proposed - "The Michigan Business Tax (MBT)"

November 29, 2006

On Wednesday, November 29, Governor Granholm issued her proposed plan to replace the revenue lost by the repeal of the Michigan Single Business Tax, which is set to expire on December 31, 2007. The new tax, labeled the "Michigan Business Tax", broadens the tax base and contains several "taxes" - a tax on profits, measured by federal taxable income, a tax on gross receipts, and a tax on assets. In addition, the Michigan Business Tax eliminates 24 mills of personal property taxes.

The new tax would raise $2.5 billion, to replace the $1.9 billion generated annually by the SBT, as well as approximately $600 million in personal property taxes that would be reduced. Labeled "revenue neutral", it still directly taxes assets in the state, as well as proposes to raise the tax on insurance companies to 1.25 from 1 percent, with credits eliminated.

The major elements of the proposal included:

- A 1.875% tax on profits,
- A .125% tax on gross receipts (with no cap indicated),
- A .125% tax on assets (part of the value added base of the SBT),
- Elimination of the state school personal property tax of 6 mills, plus an additional elimination of 18 mills on nonhomestead commercial and industrial property,
- Raising the tax on insurance companies to 1.25% from 1% and eliminating any credits,
- Creating a research and development credit, and
- Retaining the state's economic development tools to attract new jobs and investment.

The term "assets" is defined to include cash, accounts receivable, loans to shareholders, mortgage and real estate loans, other investments, as well as fixed and intangible assets. The apportionment formulas would be based 100% on a taxpayer's percentage of Michigan sales. The tax would retain a $350,000 gross receipts threshold below which businesses would not have to pay the tax, and phasing in liability for small business between $350,000 and $700,000 in gross receipts.

The Governor is expected to push for passage during the "lame duck" session that is anticipated to end by December 15, not a lot of time to consider this major tax reform, as well as the passage of the multiple bills needed to implement the proposal. **STAY TUNED!**

For more information contact our State and Local Tax Group.