

Repeal of Michigan Business Tax Update No. 1

August 9, 2006

We're Watching

The Republican-led Michigan Legislature voted today to repeal Michigan's single business tax which brings in \$1.9 billion in tax revenues to the state from business taxpayers. The House passed it 64-36, minutes after the Senate voted 22-16 to do the same. The vote means the tax will end next year, two years ahead of schedule.

Democratic Governor Granholm opposed the early end of the tax, saying lawmakers should say how they'll replace the nearly two billion dollars it brings in each year before they repeal the tax. The Governor can't block the repeal as it was started with a voter initiative, led by Oakland County Executive L. Brooks Patterson.

A joint legislative committee has begun the process of developing an alternative business tax and is expected to provide its recommendations December 1, after the November gubernatorial election. Other replacement tax structures are expected to be proposed, with the goal of economic reform for Michigan. Legislators are looking at the recent tax reforms in Ohio and Texas for guidance on which business tax structure is best for the state. Michigan was the only state to levy the Single Business Tax, a form of a value added tax, on businesses.

What's Next

Some tax incentives, such as Brownfield Tax Credits and Historic Tax Credits, have been protected through recent legislation. It is anticipated that similar legislation will be passed to preserve the state's MEGA tax credits, and other credits. However, nothing is guaranteed in politics, and there are some who would like to see less tax credits given as an incentive for businesses to locate and stay in Michigan.

There are many possible tax replacements for the Single Business Tax, with current options that include the following: a business license fee, or a gross receipts tax, or a combination of consumption based tax and a profits tax, or a broad based sales tax (which would also replace the personal property tax levied on business assets).

Stayed Tuned . . . More Updates Will Be Coming

For more information on the repeal of Michigan's Single Business Tax, contact our State and Local Tax Group.