

SBT REPLACEMENT TAX PROPOSALS

As of December 31, 2007, Michigan's Single Business Tax ("SBT") will end. The replacement tax will shift tax burdens and eliminate many current credits and exemptions. However, tax planning opportunities arise as well. Below is a brief synopsis of the current replacement tax proposals.

Detroit Regional Chamber Plan

The Detroit Chamber of Commerce task force replacement tax plan is a business license fee based on sales in Michigan. This fee structure is similar to Delaware's business license fee structure. It would tax at various fee levels all businesses that generate gross receipts of \$350,000 or more. For example, businesses that generate between \$350,000 and \$500,000 would pay an annual fee of \$1,000; between \$500,000 and \$750,000 would pay \$2,000 and caps out at a \$1,000,000 fee. Businesses with sales of less than \$350,000 would pay no tax. Multistate businesses would apportion tax base based on a single sales factor.

The Subtractive Value Added Tax and Income Tax

Hillsdale College Economics Professor Gary Wolfram has proposed businesses pay either a subtractive value-added tax similar to the SBT or a net profits tax. The plan would allow businesses to choose whether to be taxed on their net profits or their value-added. Electing which option to use would be binding for a minimum number of years. The value added tax would also allow for a tax base reduction based on the cost of manufacturing or delivering a service.

The Michigan Fair Tax Plan

House Tax Chairperson Fulton Sheen has recommended the "Fair Tax Proposal." This plan would eliminate the SBT, the Personal Property Tax, and the Michigan Income Tax and replace it with a higher sales tax. The Michigan Fair Tax Group has calculated the sales tax rate to be 8.5 percent, while Treasury has calculated the rate at 10.2 percent. This plan has almost no chance of enactment because both gubernatorial candidates have vowed not to shift the business tax burden to individuals through an expanded sales tax.

The Michigan Chamber Plan

The Michigan Chamber of Commerce has proposed a combination of a Business Income Tax and a Business License Tax in two options: one would replace only the SBT and the other option would eliminate the SBT and 50 percent of the Personal Property Tax through a credit against the tax. This plan would utilize a tax based on profits and also a business license tax based on Michigan sales which would start at the \$350,000 SBT threshold. There would be a \$2 million cap on the business license fee per return. Businesses with gross receipts under \$350,000 who have employees would pay a \$150 fee. The license fee does not apply to sole proprietors who have no employees.

The Grand Rapids Area Chamber Plan/Michigan Business Activities Tax (MBAT)

The Grand Rapids Area Chamber of Commerce Tax and Regulatory Affairs Committee have proposed a business activity tax based on Michigan sales, which would start at a \$350,000 threshold. Businesses with at least one employee under the \$350,000 threshold would pay a flat fee of \$150. The plan would also eliminate the Personal Property Tax completely.

Honigman Offers Seminar on SBT Replacement Tax

If you would like to learn more about how the replacement tax proposals will impact your business and what steps you can take during the transition from the SBT, please join Honigman, *Crain's Detroit Business* and Anderson Economic Group LLC, at the seminar "The SBT Replacement Tax: How Will it Affect Your Business?" The event will take place at the Hotel Baronette in Novi, Mich. Patrick Anderson and Caroline Sallee of Anderson Economic Group LLC and Amy Lane of *Crain's Detroit Business* will join Mark Hilpert, June Summers Haas, Richard Barr and Fred Frank of Honigman to discuss the following featured topics:

- Impact of the proposed replacement taxes on local business
- Repercussions of replacing the SBT for businesses that currently receive SBT credits
- Progress that has been achieved in legislation to replace the SBT
- Planning opportunities available during transition

DATE: December 7, 2006
7:30 – 9:30 a.m.

LOCATION: Hotel Baronette
27790 Novi Rd.
Novi, Mich. 48377

FEE: \$50 per person (waived for current Honigman clients)

WHO SHOULD ATTEND: Business owners and executives

TO REGISTER: Contact Lisa Vasquez at Honigman
313.465.7138 or lvasquez@honigman.com

To view full descriptions of the replacement tax proposals, please see the links below:

Detroit Chamber SBT Replacement Plan

The Subtractive Value Added Tax and Incentive Tax Plan

The Michigan Fair Tax Proposal

Michigan Fair Tax on Services

Michigan Fair Tax Prebate Table

Michigan Chamber of Commerce Proposals for Replacement of SBT and Personal Property Tax Relief

Grand Rapids Area Chamber of Commerce SBT and Personal Property Tax Alternative Plan

For additional information, please contact:

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