

January 25, 2007

**The Michigan Senate Republicans Introduce A Replacment Tax Plan  
(Gross Receipts/Net Worth/Business Income Tax)**

On January 25, 2007, the Senate Republicans introduced a three bill package to replace the single business tax. The proposal would replace the single business tax with a combination of three taxes -- a gross receipts tax, a franchise tax based on net worth and a business income tax. The gross receipts tax and the franchise tax combined are called the business and economic stimulus tax or "BEST." The proposal would generate \$1.5 billion -- an approximately \$300 million tax break for businesses. The pertinent points of the plan are described below. For a copy of the bills and press release please go to [www.honigmansbtinfo.com](http://www.honigmansbtinfo.com).

**Tax Base & Apportionment**

The gross receipts tax would be imposed on gross receipts of all Michigan businesses, corporate and noncorporate entities, doing business in Michigan. The gross receipts tax allows a deduction for purchases from other businesses. The franchise tax is a net worth tax based on assets minus liabilities. Taxpayers must elect the weighting of their tax base between gross receipts and the net worth tax from 70/30, 60/40, 50/50, 40/60 or 30/70. The election is binding for three years. Taxpayers with gross receipts greater than or equal to \$350,000, but less than \$15 million, can elect to pay on gross receipts only or business income only. Again, the election is binding for three years. The gross receipts and net worth tax are apportioned to Michigan using a 100% sales factor. Sales of tangible personal property are sourced to the state on a destination basis and sales of services and intangibles are based on the cost of performance. The gross receipts tax and the net worth tax provide that any taxpayer without sales in Michigan will have to apportion based on property and payroll factors.

The business income tax would be imposed on federal taxable income with add-back of federal net operating losses, add-back of deductions for other state income taxes, and deduction of foreign dividends and royalties to the extent included in the tax base. Nonbusiness income would be allocated to Michigan and added to the apportioned tax base. The business income tax is apportioned to using a 100% sales factor. Sales of tangible personal property are sourced to the state on a destination basis and sales of services and intangibles are also sourced on a destination basis. The Multistate Tax Commission's rules for apportioning income of financial organizations are also incorporated to source financial receipts. The income of financial institutions is apportioned based on gross receipts.

**Tax Rate**

The business income tax has a rate of 1.97%. The rate for the gross receipts and net worth tax would be determined by the Michigan Department of Treasury along with the Senate and House fiscal agencies at a rate that, when combined with the business income tax, would generate \$1.5 billion. If the receipts from the tax exceed \$1.51 billion plus the rate of inflation, then the rate must be adjusted to a rate that will generate only \$1.51 billion for the current tax year.

### **Insurance Companies**

Insurance companies are subject to a gross premiums tax at a rate of 1.0735%. The gross premiums tax is imposed at the same rate and with the same deductions and credits as currently applied under the SBT and is in lieu of all other taxes except property taxes.

### **Financial Institutions**

Financial institutions are taxed under the gross receipts and franchise net worth tax based on gross business income as under the current SBT. The definition of a financial institution is the same as under the SBT. However, under the gross receipts and franchise net worth tax, mortgage companies (those with 70% of revenues from origination, sale or servicing of residential mortgage loans) may source receipts from origination or sale of a loans secured by real property to the state where the real property is located.

### **Minimum Tax – Small Business Exception**

Businesses with apportioned gross receipts of equal to or less than \$350,000, but greater than \$100,000, pay a minimum tax of \$100. Businesses at or below the \$100,000 apportioned gross receipts threshold have no tax liability or filing responsibility for any tax.

### **Filing Method**

An affiliated group of taxpayers may elect to file on a consolidated basis pursuant to rules similar to those existing under the SBT.

### **Credits and Incentives**

The Michigan Early Stage Venture Investment, Next Energy, Brownfield, Renaissance Zone and MEGA credits are continued in the new tax. In addition, a new Michigan Entrepreneurial credit is created. Under this credit, businesses with gross receipts less than \$25 million that create or transfer 20 new jobs and make a capital investment of \$3 million in the prior year or \$5 million in the last two years receive a credit of 100% of their tax liability. Any SBT business loss carryforward can be taken against the business income tax.

### **Personal Property Tax Relief**

The proposal provides a 10% credit for existing industrial personal property purchased within the last five years and an exemption from personal property tax for all new purchases of industrial personal property.

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