

**February 1, 2007**

**The Michigan Chamber of Commerce  
Business License/Business Income Tax Proposal Introduced**

The Michigan Chamber proposal to replace the Michigan Single Business Tax (“SBT”) with a combination of a business income tax and a business license tax and 50% personal property tax credit against the tax was introduced on February 1, 2007 as Senate Bill 151. The proposal’s tax rates have been established to produce an overall tax reduction of \$500 million. A description of the pertinent features of the proposal follows.

**Tax Base & Apportionment**

The business license tax would be imposed on gross receipts of all Michigan businesses, corporate and noncorporate entities, doing business in Michigan. A business will have nexus with Michigan if it has physical presence in the state under the Michigan Department of Treasury’s current Revenue Administrative Bulletin 1998-1.

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. A business will have nexus for the business income tax if it has physical presence in the state under the Michigan Department of Treasury’s current Revenue Administrative Bulletin 1998-1 and is not protected by Public Law 96-272.

Both the business license tax and the business income 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 also sourced on a destination basis. The Multistate Tax Commission’s rules for apportioning income of financial organizations is adopted for apportionment of all financial income.

**Tax Rate**

The business license tax on apportioned gross receipts would be imposed at a general rate of .48% and on business entities principally engaged in wholesale or retail sales at a rate of .24%. There would be a \$2 million cap on the business license tax per return. The business income tax would be imposed at a rate of 3.05%.

**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.

**Minimum Tax – Small Business Exception**

Businesses with apportioned gross receipts of equal to or less than \$350,000 pay a minimum tax of \$150 if they have at least one employee. Businesses at or below the \$350,000 apportioned gross receipts threshold with no employees have no tax liability or filing responsibility.

**Filing Method**

Both the business license tax and the business income tax are determined on a unitary business basis. In addition, a consolidated group of taxpayers may elect to file on a consolidated basis. The election is effective for five years.

**Credits and Incentives**

Previously granted credits for Brownfield, Renaissance Zone or MEGA would be allowed as a credit against either or the sum of both of the taxes. No other tax incentives would be continued under the new tax law and no new tax incentives would be granted. In addition, taxpayers could apply any SBT business loss carryforward against their tax base for either or both taxes, determined on a separate company basis.

**Personal Property Tax Relief**

All taxpayers are allowed a refundable credit for 50% of personal property taxes paid to any local government.

For further information, please contact:

June Summers Haas	517.377.0734	JHaas@honigman.com
Mark A. Hilpert, Tax & Economic Incentive Manager	517.377.0727	MHilpert@honigman.com
Stewart L. Mandell	313.465.7420	SLMandell@honigman.com
Daniel L. Stanley	517.377.0714	DStanley@honigman.com
Alan M. Valade	313.465.7636	AValade@honigman.com
Patrick R. Van Tiflin	517.377.0702	PVanTiflin@honigman.com

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