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Governor Snyder Proposes Overhaul to Michigan Taxes

Michigan Governor Rick Snyder has proposed a major tax overhaul, which includes the replacement of the Michigan Business Tax with a 6% corporate income tax on C-corporations. Those who are involved in the area of economic development will be especially interested in significant changes being proposed for many tax credits and development incentives.

The Governor's new corporate income tax would eliminate a multitude of tax incentives that are currently offered under the Michigan Business Tax, including the MEGA employment credit, brownfield credit, state historic preservation credit, battery credits and the personal property tax credit. The plan would also greatly scale back the film production incentive credit and replace it with grants totalling up to \$25,000,000 for the 2012 budget year. The Governor proposed the approval of up to \$50,000,000 of incentives per year for business retention and attraction and brownfield projects. By comparison, the Michigan Economic Growth Authority approved brownfield and job attraction and retention credits that are estimated to lead to credit claims of as much as \$151,000,000 in 2012 and \$328,000,000 in 2015, depending upon actual investment and jobs growth and retention.

The economic development related credits that would be eliminated, if the proposal is adopted include:

- MEGA Jobs Credits
- Anchor Company Credit
- Battery Manufacturing Credit
- Brownfield Redevelopment Credit
- Historic Preservation Credit
- Renaissance Zone Credit
- Personal Property Tax Credit
- Investment Tax Credit
- Research and Development Credit
- Film Production Credit
- Film and Digital Media Infrastructure Credit
- Film Job Training Credit
- Start-up Business Credit
- Michigan Early State Venture Credit

Governor Snyder indicated that the State would honor existing signed tax credit agreements.

As is the case with any tax law change, some businesses would pay less tax and some would pay more under the Governor's plan. Businesses that likely would pay less tax under the plan include many businesses organized as S-corporations or limited liability companies. In addition, C-corporations with low or no net business income may pay less under the plan. On the other hand, some capital intensive C-corporations may pay more tax due to the loss of the personal property tax credit and investment tax credit. Businesses, including those that face the elimination of tax credits, such as those involved with real estate redevelopment projects in downtown or urban areas and those in industries such as battery manufacturing or other high-technology areas, film production, and film or digital media studios, will want to evaluate the overall economic impact of the proposal.

Honigman will be monitoring the Legislature's consideration of the Governor's proposal. If you have any questions, please contact us.

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