

# THE NEW MICHIGAN BUSINESS TAX

## **A Better Tax for Michigan Business**

- Less reliant on profits
- Rewards investment in capital, jobs, and research and development
- Eliminates taxing compensation
- Additional relief for small business
- Provides personal property tax relief
- 7 out of 10 businesses get a tax cut

## **The Tax**

- Business income taxed at a rate of 4.95%
- Margins tax on sales minus purchases of tangible property at a rate of 0.8%
- Banks pay alternate tax capital stock (net worth at a rate of 0.235%)
- Insurance tax rate increased from 1.07% to 1.25% with current credits retained

## **Credits for Investing in Michigan**

- Investment tax credit for purchase of capital
- Compensation credit for jobs created or retained
- Research and development
- Investment tax and compensation credit limited to 65% of liability; Rand D credit can increase reduction to 75%

## **Personal Property Tax Reductions**

- 65% on average for manufacturing (24 mill school tax exemption plus 35% credit on remainder)
- 23% on average for commercial property (12 mill school tax exemption)
- 23% for telephone property
- 10% for natural gas pipelines

## **Small Business Features**

- \$350,000 filing threshold maintained
- Phase-in of liability eliminates “cliff” affect that imposes full liability at \$1 over threshold
- Alternate profits tax maintained but rate lowered from 2.0% to 1.8%
- Eligibility for small business treatment expanded from \$10 million of gross receipts to \$20 million of gross receipts
- Compensation caps, including benefits, increased from \$115,000 to \$180,000
- Start-up business exemption maintained
- New exemption for business activity adding 20 jobs and making \$1.2 million in new investment

## **Current Economic Development Incentives**

- Existing commitments for MEGA's, brownfields, historic preservation and renaissance zone retained
- MEGA's, brownfields, historic preservation, and renaissance zone continued for the future

## **Fiscal Information**

- Tax is revenue neutral to fully replace SBT and reimburse school aid fund for personal property tax exemptions

## **Revenue/Rebate Trigger**

- FY 08 – 5% over revenue neutral amount
- Next two years – growth in Michigan personal income plus 1%
- Excess distributed 50% to state rainy day fund and 50% to taxpayers
- Trigger sunsets after 3 years

## **Effect on Taxpayers**

- \$125-\$150 million cut for small business
- Seven out of ten taxpayers receive tax reduction