

THE MICHIGAN BUSINESS TAX

Note: As of January 1, 2012, the Michigan Business Tax (MBT) has been replaced by the Michigan Corporate Income Tax (CIT). Businesses with certificated credits may still elect to file under the MBT structure. See the Michigan CIT fact sheet for more information.

In 2008, Michigan implemented the MBT to replace the Single Business Tax (SBT). Under the MBT, businesses (including small businesses and manufacturers) were encouraged to invest in Michigan through numerous tax credits and a lower overall tax burden.

The MBT was based on business income and gross receipts, plus an added surcharge. It also included a number of tax credits and incentives. The 2008 tax reform also significantly reduced property taxes, creating certain exemptions for industrial and commercial personal property. In addition, small business growth was encouraged under the MBT; a business with gross receipts of \$350,000 or less did not have to file a tax return or pay any tax, and other credits existed for smaller Michigan firms.

Under the MBT, the Business Income Tax was assessed on business activity that took place in Michigan. The tax base started with federal taxable income or a comparable measure of income for partnerships and S corporations. The tax rate was 4.95%.

The Modified Gross Receipts Tax was based on a company's gross receipts, less purchases from other firms. Purchases from other firms included inventory purchased during the tax year, capital expenditures, and certain materials and supplies. The rate of this tax was 0.8%. Special provisions reduced the tax base for a variety of taxpayers, including auto dealers, construction contractors, self-employed individuals, and members of partnerships and limited liability companies. A portion of certain taxes collected by a business were included in

gross receipts until 2012.

A surcharge was applied to the apportioned business income tax and gross receipts tax before credits. The rate was 21.99%.

MBT HIGHLIGHTS

Business Income Tax	4.95%
Gross Receipts Tax	0.8%
Surcharge: Applied to apportioned income and gross receipts tax before credits	21.99%
Apportionment Factor	100% Sales
Filing threshold	\$350k
Investment Tax Credit ¹	Investment Tax Credit ²
Compensation Credit ¹	0.37% ²
R&D Credit ¹	1.9% ²
Industrial Personal Property Tax Credit ³	35%

¹The combined ITC and Compensation Credit cannot exceed 50% of tax liability in 2008 and 52% in tax years thereafter. The combined ITC, Compensation Credit, and R&D credit cannot exceed 65% of liability in 2008 and beyond.

²These are the permanent credit ratios beginning in 2009. Initially, the 2008 credits are lower—the ITC at 2.32%, the Compensation Credit at .296%, and R&D Credit at 1.52%.

³Not available on leased personal property.

APPORTIONMENT

Both the Business Income Tax and Modified Gross Receipts Tax are apportioned to Michigan based on sales. The apportionment factor equals a business' sales in Michigan divided by its total sales everywhere.

INSURANCE AND FINANCIAL INSTITUTIONS

Under the MBT, insurance firms paid a 1.25% tax on apportioned gross direct premiums (with adjustments)

and financial institutions paid 0.235% on the five-year average value of net capital. Insurance firms were not subject to the surcharge. Financial institutions paid the surcharge at 27.7% in 2008 and 23.4% thereafter. Insurance firms and financial institutions were eligible to claim the compensation credit.

TAX CREDITS

The MBT offers incentives for new and existing firms. Certificated credits were allowed for Michigan-based compensation costs, capital purchases, R&D expenditures, and property taxes paid on purchased industrial personal property. A “phase-in credit” eased the tax impact for small businesses with gross receipts between \$350,001–\$700,000 and the Small Business Alternative Credit allowed smaller businesses to pay an alternative 1.8% tax on adjusted business income. The MBT contained other incentives as well. Tax credits for Brownfield redevelopment, locating in a Renaissance Zone®, creating a significant number of jobs, investing in the creation of alternative energy, or giving to charity were also available.

PERSONAL PROPERTY TAX RELIEF

As part of the recently retired tax reform package, firms received an additional reduction on their property tax bill. Taxes were automatically reduced by 24 mills for industrial personal property which was owned by the taxpayer. Combined with the 35% MBT tax credit, manufacturers would on average experience a 65% reduction in personal property taxes. Commercial personal property received an automatic reduction of 12 mills, or a 23% reduction on average.

For more information, contact the Michigan Economic Development CorporationSM (MEDC) Customer Contact Center at 517.373.9808 or visit the Department of Treasury website at michigan.gov/MBT