

Statements

Michigan Business Tax

Updates to podcast

October 16, 2008

The MBT surcharge was a controversial amendment added in late 2007 as a result of ongoing concerns that the MBT, as originally enacted, would fall short of its projected revenue goal. The surcharge, for taxpayers that are neither financial institutions nor insurance companies, requires that the taxpayer's calculated MBT liability be multiplied by 1.2199%. In effect, the surcharge increases the 4.95% BIT rate to slightly more than 6% and the 0.8% GRT rate to almost 1%.

MBT taxpayers that are "financial institutions" are also subject to a surcharge equal to 27.7% in 2008 and 23.4% in subsequent years. However, no surcharge is imposed on MBT taxpayers that are "insurance companies."

The same surcharge legislation also changed the manner in which the MBT "Wage", "ITC" and "R & D" credits are calculated and applied.

The MBT "Wage credit" for compensation paid to Michigan employees has been reduced to 0.296% in 2008 and remains 0.37% in subsequent tax years, the "Investment Tax Credit" for acquisitions of depreciable Michigan property has been reduced to 2.32% in 2008 and remains 2.9% in subsequent tax years, and the R & D credit for Michigan "R & D" expenses has been reduced to 1.52% in 2008 and remains 1.9% in subsequent tax years.

In addition to the reduction in credit rates for these three MBT credits in 2008, the maximum MBT liability against which these credits can be applied was also reduced. Specifically, the Wage and ITC credits can only offset 50% of a taxpayer's pre-surcharge MBT liability in 2008, and 52% of a taxpayer's pre-surcharge MBT liability in subsequent tax years. In a similar fashion, the R & D credit can only offset 65% of a taxpayer's pre-surcharge MBT liability. Unchanged is the fact that no credit carryover is available for any unused Wage, ITC or R & D credit.

One last point that needs to be reinforced is that these three credits DO NOT reduce in any manner the surcharge liability component of a taxpayer's MBT liability.

One favorable change to the MBT was the addition of a deduction from a taxpayer's Business Income Tax base (prorated over 15 years beginning in 2015) equal to the taxpayer's total book-tax differences triggered by the enactment of the MBT that results in a net deferred tax liability. This BIT deduction and the resulting net deferred tax asset is intended to create a one-time offset of any unfavorable financial statement resulting from the FAS 109 characterization of both the BIT and GRT elements of the MBT as a "net income tax."