



MULTISTATE INCOME/FRANCHISE TAX

Michigan enacts tax changes in response to OBBBA Tax Alert

Overview

On October 7, 2025, Michigan enacted into law a package of budget bills, House Bills [4183](#), [4951](#), [4961](#), and [4968](#) (collectively “Michigan Budget Bills”), making several changes to the state’s business tax landscape after the enactment of federal Public Law 119-21, commonly known as the One, Big, Beautiful Bill Act (“OBBBA”), which was enacted on July 4, 2025. The new Michigan laws decouple the state from the federal tax changes made in the OBBBA pertaining to research and experimental expenses, depreciation deductions, and business interest expense; establishes new dedicated revenue streams, including a marijuana wholesale excise tax and an increased motor-fuel tax, to fund transportation and healthcare programs in the state; and also make changes to the state’s income tax for individuals, including the treatment of tip and overtime pay. Each act took effect immediately upon signature.

This Tax Alert summarizes some of the provisions in the Michigan Budget Bills.

General conformity

Section 12(3) of the Michigan Income Tax Act now defines Internal Revenue Code (“IRC”) to mean “the United States internal revenue code of 1986 in effect on January 1, 2025 or at the option of the taxpayer, in effect for the tax year.” This allows taxpayers to use either the current version of the IRC as of January 1, 2025, or the IRC applicable to their tax year.

Decoupling provisions

Michigan now decouples its business income tax calculations from certain provisions in OBBBA, requiring taxpayers to calculate taxable income as if the specific federal provisions listed below were not in effect after December 31, 2024. Michigan continues to accept most federal definitions for gross income, adjusted gross income, and taxable income, except where expressly decoupled, thereby maintaining general conformity with the IRC.

Section 174 – Research and experimental expenditures

Michigan applies the pre-OBBBA capitalization and amortization rules for research and experimental expenditures under section 174. Taxpayers are

required to capitalize and amortize domestic research costs over five years and foreign research costs over fifteen years. The new IRC section 174A immediate expensing regime does not apply for Michigan purposes.

Michigan's conformity update also includes a provision requiring that federal taxable income for tax years beginning after December 31, 2021, must be calculated as if the transition rules under OBBBA do not apply. As a result, Michigan taxpayers must disregard the federal transition rules when determining their taxable income for Michigan purposes.

Section 163(j) – Limitation on business-interest deductions

Michigan's limitation on business-interest deductions continues to be based on thirty percent of earnings before interest and taxes (EBIT) rather than EBITDA, and each member of a unitary business group is still required to compute its limitation separately.

Sections 168(k) and 179 – Bonus depreciation and small-business expensing

For corporate income taxpayers, Michigan continues to fully decouple from the IRC section 168(k) bonus depreciation provisions. For non-corporate taxpayers, Michigan continues to conform to IRC sections 168(k) and 179 but maintains pre-OBBBA limits on expensing of eligible assets. The OBBBA's expanded expensing threshold and 100% bonus depreciation are not adopted for Michigan purposes. Property immediately deductible for federal purposes must continue to be capitalized and depreciated under Michigan law.

Section 168(n) – Special depreciation for qualified production property

Michigan now decouples from the newly enacted IRC section 168(n) special depreciation provisions of the 100% special depreciation allowance for certain qualified production property. For Michigan purposes, taxable income must be calculated as if 168(n) were not in effect, and taxpayers are required to add back any federal special depreciation claimed under this provision.

Individual income tax adjustments

The Michigan Budget Bills provide that for tax years after December 31, 2025, and before January 1, 2029, individual taxpayers may deduct qualified tips and overtime pay as permitted under OBBBA, but only to the extent not otherwise deducted in determining adjusted gross income for state purposes. For nonresidents, the deduction is limited to wages earned through services performed within Michigan.

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