

Michigan Tax Law Changes

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On Wednesday, May 25, 2011, Governor Snyder signed a number of new tax Bills to revise Michigan's tax structure. The new laws include elimination of the Michigan Business Tax (MBT), creation of a Michigan Corporate Income Tax and permanent spending reductions, elimination of tax credits for low-income workers, phase-out of most senior tax breaks and eliminates numerous income tax deductions and credits. The new law is effective January 1, 2012.

Some of the key changes for businesses are the following:

1. The MBT is eliminated as of January 1, 2012. A new corporate income tax will be levied on C Corporations at a tax rate of 6.0%. The method of computing the tax is similar to the income tax portion of the current Michigan Business Tax (MBT) Act. The tax is effective January 1, 2012.
2. S Corporations, Limited Liability Companies, partnerships and individuals are not subject to the corporate income tax.
3. Income will be apportioned to Michigan based on the ratio of Michigan sales to total sales.
4. Unitary filing is required for corporations under common control.
5. Companies with apportioned gross receipts of less than \$350,000 will not be required to file a return, as well as companies with a liability of less than \$100.
6. The small business credit is still available for eligible companies. The credit is available for qualifying "small business" (e.g. less than \$20 million in gross receipts and income less than \$1.3 million). There are additional limits based on compensation and directors fees to individual shareholders and officers.
7. All other credits provided for under the MBT are eliminated.
8. For those taxpayers that would like to continue claiming certificated credits, an election can be made to file under the MBT Act instead of the new corporate income tax. Certificated credits include (but are not limited to) Brownfield Credits, MEGA Credits, The Media Production and Infrastructure Credit, and Renaissance Zone Credit. An election would be required to file under the MBT rather than the corporate income tax. Once made the taxpayer would be subject to the MBT until the credits have expired. Taxpayers claiming certificated credits would be required to pay a tax based on the greater of their Michigan business liability or a modified version of the liability under the corporate income tax.

Some of the key changes for individuals are the following:

1. The law will keep the tax rate of 4.35% through January 1, 2013 and then lower it to 4.25%.
2. The deduction for pension and retirement income (including social security) has been modified. The changes are determined based on the age of the older spouse as follows:
 - For individuals born before 1946, there is no change; pensions are not taxable.
 - For individuals born in 1946 through 1952, the deduction is limited to \$20,000 for a single return and \$40,000 for a joint return. However, the deduction will be limited if the taxpayers income exceeds certain thresholds.
 - For individuals born after 1952, there will be no deduction allowed for retirement income. However, once the taxpayer reaches age 67, the taxpayer may elect to deduct \$20,000 for single or \$40,000 for joint return against all types of income. However, the deduction will be limited if the taxpayers income exceeds \$75,000 for single return or \$150,000 for a joint return.
3. A taxpayer born after 1945 can no longer deduct a portion of interest, dividends and capital gains received.
4. Taxpayers can no longer receive an additional \$600 exemption for each dependent child under the age of 19 or \$1,800 for each taxpayer age 65 and older.
5. The personal exemption is fixed at \$3,700 through 2012. Beginning in year 2013, the exemption will be adjusted annually for inflation. The personal exemption will be phased out for single taxpayers with household resources between \$75,000 and \$100,000 and married couples filing joint return with household resources between \$150,000 and \$200,000.
6. Business income reported on an individual income tax return would be apportioned based on 100% of a sales factor rather than a three factor formula equally weighted.
7. Elimination of many non-refundable credits such as the city income tax credit, the public contribution credit, the community foundation credit, the homeless/food bank credit, the college tuition credit and the vehicle donation credit.
8. Political contributions are no longer deductible.
9. The Michigan Earned Income Tax Credit is eliminated.

This information is a brief summary of a complex new law and is provided for informational purposes only. It is not intended to constitute tax advice which may be relied upon to avoid penalties. If you have questions on the new law, please contact Ed Castellani at 517.377.0845 or ecastellani@fraserlawfirm.com.