

**Provisions of Corporate Income Tax Plan
May 10, 2011**

Corporate Income Tax

Tax Rate:

- 6% (Rate is equivalent to the MBT Business Income Tax Rate of 4.95% plus the 21.99% Surcharge applied to income = 6.0385%)

Tax Base:

- Federal taxable income (decoupled from Federal accelerated depreciation and domestic production activities deduction)

Taxpayers Subject to Tax:

- Corporations Only--Partnerships, S Corporations, Individuals not subject to tax
- LLCs subject to tax only if they elect to be taxed as a corporation
- Unitary Business Groups (UBGs) required to file a combined return

Exemptions:

- Taxpayers with liability under \$100 do not have to file or pay
- Taxpayers with gross receipts under \$350,000 do not have to file or pay

Adjustments:

- Additions—Interest and dividends from other-state obligations, net-income taxes, NOLs, royalties and interest paid to related entities not part of unitary group
- Subtractions—Dividends and royalties received from non-US persons, interest income from US obligations, business losses incurred after effective date

MBT Credits Retained:

- Small Business Alternative Tax Credit

MBT Credits Repealed:

- Arts and Culture Credit
- Biofuel Infrastructure Credit
- Bottle Deposit Administration Credit
- Community or Education Foundation Credit
- Entrepreneurial Credit
- Gross Receipts Filing Threshold Credit
- Homeless Shelter/Food Bank Credit
- Individual or Family Development Account Credit
- Investment Tax Credit
- International Auto Show Credit
- Large Food Retailer Credit
- Low-Grade Hematite Credit
- Mid-Size Food Retailer Credit
- NASCAR Safety Credit
- NASCAR Speedway Credit
- New Motor Vehicle Dealer Inventory Credit
- Next Energy Business Activity Credit
- Next Energy Payroll Credit
- Personal Property Tax Credit
- Private Equity Fund Credit
- Research and Development Credit
- Stadium Credit
- Start-up Business Credit

Credits Certified Before 2012:

- Credits awarded (certified) before 2012 will be honored
- In order to claim certified credits, a business must elect to pay the MBT. A business that makes this election may not reduce its pre-certified credit liability below what it would pay under a 6% income tax. A business without certified credits may not elect to pay the MBT
- The MBT certified credits include:
 - Anchor Company Payroll Credit
 - Anchor Company Taxable Value Credit
 - Brownfield credits
 - Corporate Farmland Preservation Credit
 - Film Credits
 - Historic Preservation Credits
 - MEGA Credits, including battery, photovoltaic, polycrystalline, and hybrid technology research and development credits
 - Renaissance Zone Credit
 - Tax Voucher Certificates (Michigan Early Stage Venture Investment Act)
 - NASCAR speedway credit

Financial Institutions Tax

Tax Rate and Base:

- Financial Institutions Tax: 0.29% (equals current tax rate of 0.235% plus current surcharge of 23.4%)
- Tax base continues to be net capital stock

Deductions and Credits:

- Deduction for Goodwill is eliminated
- MBT credits repealed for CIT are also repealed for Financial Institutions
- Certified credits already awarded could still be claimed

Insurance Tax

Rate and Base:

- Tax continues to be 1.25% of gross direct premiums written on property or risk located in Michigan. Insurance companies based in other states that sell insurance in Michigan pay the greater of this tax or the retaliatory tax

Credits:

- MBT credits repealed for CIT are also repealed for insurance companies
- Certified credits already awarded could still be claimed

Miscellaneous

- Effective date 1/1/12
- Apportionment—100% sales for everyone (MTC apportionment does not apply)
- Sourcing provisions—Same as MBT
- Nexus standard—Same as MBT with provision for corporate owners of pass-throughs

Provisions of Income Tax Plan May 10, 2011

Tax Rate

- Freeze tax rate at 4.35% until 1/1/2013 and then lower to 4.25%

Exemptions

- Personal exemption at \$3,700 as under current law and will be indexed beginning in 2013
- Phase out exemption for “total household resources” over \$75,000 single/\$150,000 joint
- Repeal \$2,300 special exemption for seniors and exemption for unemployment compensation greater than 50% of AGI
- Special exemption for disabled and exemption for disabled veterans remain unchanged
- Repeal \$600 child deduction

Retirement Income Exemption

- People younger than 60 in 2012 (born after 1952):
 - No exemption until they turn 67
 - When 67 and older they will receive a \$20,000 single/\$40,000 joint special senior exemption against all types of income. This exemption can be taken instead of the Social Security and personal exemptions if it would result in more generous tax treatment
- People 60 – 66 in 2012 (born in 1946 through 1952):
 - \$20,000 single/\$40,000 joint retirement income exemption in addition to Social Security exemption and personal exemption until age 67
 - When 67 and older they will receive \$20,000 single/\$40,000 joint special senior exemption against all income in addition to Social Security and personal exemptions
- People 67 and older in 2012 (born before 1946):
 - Held harmless—receive current law retirement income exemptions; dividend, interest, and capital gains exemption; Social Security exemption; and personal exemption
- For people born in 1946 and after, these retirement income and special senior exemptions are phased out if “total household resources” exceed \$75,000 single/\$150,000 joint. People born before 1946 are held harmless
- Military pensions will continue to be tax exempt

Deductions/Subtractions

- Retain senior interest, dividends, and capital gains deduction for most current seniors
- Repeal deduction for reinvestment of gain from strategic fund investments
- Repeal certain miscellaneous deductions (political donations; prizes won in state-regulated bingo, raffle, or charity games; charitable gifts from retirement plans)
- Eliminate deduction for expenses associated with non-taxable income (often referred to as the oil and gas double deduction)
- Repeal Renaissance Zone deduction

Non-refundable Credits

- Repeal credit for city income taxes
- Repeal credit for public contributions
- Repeal credit for contributions to homeless shelters, food banks, and community foundations
- Repeal credit for contributions to medical savings account
- Repeal credit for donation to Family Development Program
- Repeal film credit for wage withholding
- Repeal credit for automobile donation
- Repeal credit for tuition and fees
- End credits for historic rehabilitation plans certified after 2011

Refundable Credits

- Reduce phase-out for homestead property tax credit to \$41,000 - \$50,000
- Property tax credit for seniors will equal the difference between property taxes and 3.5% of household income times the following percentages:
 - Household incomes \$0 - \$20,000: 100%
 - Household incomes \$20,001 - \$30,000: Phased down from 100% to 60%
 - Household incomes greater than \$30,000: 60%
- Non-seniors will get a credit of 60%
- No change in calculation of credit for the disabled or for veterans
- People whose home has a tax value in excess of \$135,000 would not be eligible for the credit and business losses will not be included in household income
- Reduce earned income tax credit to 6%
- End credits for farmland preservation agreements entered into after 2011
- Repeal credit for excess adoption expenses
- Repeal credit for stillbirths

Miscellaneous

- Adopt 100% sales factor apportionment
- Repeal obsolete provisions
- End tax voucher program for Early Stage Venture Investment agreements entered into after 2011
- Effective date 1/1/12 (except for rate freeze, which takes effect 10/1/11)