

## TAX BREAKS AND EXEMPTIONS: WHAT EVERY SMALL BUSINESS SHOULD KNOW

Paying close attention to the fundamentals of taxation and business costs can pay off when it comes to participating in today's competitive marketplace. Below are some highlights that business owners should review and consider discussing with their tax preparer, business consultant or tax attorney. The list is not exhaustive and should only serve as a starting point for understanding business costs.

Newly-created Michigan businesses may use **Form 518**, "Registration for Michigan Taxes," to select and create tax accounts as needed for business taxes, sales taxes, withholding taxes, unemployment insurance taxes, motor fuel taxes and tobacco taxes. Details about starting and operating a business may be obtained through the Michigan Business One-Stop online service at [www.michigan.gov/business](http://www.michigan.gov/business) or by phone at 877.766.1779.

### MICHIGAN CORPORATE INCOME TAX (CIT)

Michigan's Corporate Income Tax (CIT) is at a flat rate of 6%. The tax applies to C corporations and any entity that elects to be taxed as a C corporation. Income is apportioned based 100% on the sales factor. Corporations with less than \$350,000 of apportioned gross receipts or less than \$100 in liability are not required to file or pay the CIT.

Flow-through entities pay no CIT, and income passes through to the owners' Personal Income Tax (PIT) return. Michigan's current personal income tax rate is 4.25%. Flow-through entities are required to withhold at the applicable rates.

#### *Apportionment*

The CIT's apportionment formula is based on a company's sales in Michigan divided by its total sales everywhere. Thus, a firm's investment or job creation in Michigan will not directly affect the apportioned tax base.

#### *Small Business Alternative Tax Credit*

The CIT includes a Small Business Alternative Tax Credit. Qualified small businesses may pay an alternate tax equal to 1.8% of adjusted business income. The small business must meet the following criteria:

- Adjusted business income does not exceed \$1.3 million (indexed to inflation).

- Gross receipts do not exceed \$20 million (credit phase-out range for gross receipts is \$19 million - \$20 million).
- Officer and/or shareholder's compensation cannot exceed \$180,000 (credit phase-out range for officer compensation is \$160,000-\$180,000).

Details about the CIT and related forms can be accessed by visiting <http://michigan.gov/taxes>.

### UNEMPLOYMENT INSURANCE

Businesses may obtain an unemployment insurance tax account with the Michigan Unemployment Insurance Agency (UIA) by also using **Form 518**, "Registration for Michigan Business Taxes." For new non-construction employers, the tax rate will be as low as 2.7% in the first two years of operation. An experience-based rate is implemented in the third year of operation and thereafter. With no layoffs, the new employer rate can drop as low as 0.06%. The taxable wage base per employee is \$9,500 annually.

Beginning in 2013, all employers will additionally pay an Obligation Assessment (OA) for approximately seven years. The OA incorporates an employer's experience as well as a standard rate of \$63 per employee.

Generally, there are three ways that an "employing unit" in Michigan can become responsible for paying unemployment insurance "contributions" (taxes) to the UIA:

1. If the employing unit employs one or more persons in any 20 different calendar weeks (Sunday through Saturday) in a calendar year (January 1 through December 31); or
2. If the employing unit pays (or owes payment of) total wages of \$1,000.00 or more in a calendar year; or
3. If the employing unit acquires the organization, trade or business or 75% or more of the assets of a company that was already an employer liable for the payment of unemployment taxes. Becoming an employer in this way is known as "successorship." (For more information on successorship, see the separate fact sheet on the "Transfer of Business" issue by clicking [here](#).)

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There are different provisions for employers of some types of workers, including but not limited to domestic and agricultural workers. For more unemployment insurance information, visit [www.michigan.gov/uia](http://www.michigan.gov/uia).

### WORKERS' COMPENSATION INSURANCE

Small businesses may obtain workers' compensation insurance coverage through Michigan insurance agents, available group self-insurance funds or through the Michigan Placement Facility's Assigned Risk Pool.

All private employers must have workers' compensation coverage if:

1. They regularly employ three or more workers at one time; or
2. During the preceding 52 weeks, they have regularly employed at least one worker for 35 hours or more per week for 13 weeks or longer.

All public employers must have coverage; any other employers can voluntarily choose to buy workers' compensation insurance coverage. Michigan has special provisions that apply to contractors, subcontractors and sole proprietors.

Limited exclusions from required workers' compensation insurance coverage are available to qualified employers. To inquire about exclusions, companies should contact the Workers' Compensation Agency's Insurance Compliance Division at 517.322.1195.

For more workers' compensation information, including a listing of group self-insurance funds, visit [www.michigan.gov/wca](http://www.michigan.gov/wca). Information about the Michigan Placement Facility's Assigned Risk Pool is located at [www.caom.com](http://www.caom.com).

### SALES TAX

Companies selling tangible property to end users or consumers can get a sales tax license using **Form 518**, "Registration for Michigan Business Taxes."

Claims for a sales tax exemption should not be directed to the Michigan Department of Treasury. Instead, the sales tax exemption should be claimed from the seller of the product. The seller should be provided with a completed and signed **Form 3372**, which can be good

for up to four years as a blanket exemption claim or for one-time purchases. The form establishes under which provision the buyer is claiming the exemption. Details on the eligibility standards for the exemption provisions can be found in the Michigan Department of Treasury Revenue Administrative Bulletin **2002-15**.

General questions about the exemption may be obtained from the Sales, Use & Withholding Tax Technical Unit by calling 517.636.6925. Sales tax information and revenue administrative bulletins may be obtained at [www.michigan.gov/taxes](http://www.michigan.gov/taxes).

### PROPERTY TAX

In the State of Michigan, commercial personal property is exempt from 12 of the 24 standard education mills, while purchased industrial personal property is exempt from all 24 standard education mills. These exemptions will not apply to any of the 28 Hold Harmless school districts located in the state. Local property tax assessors can answer questions about these exemptions and about industrial and commercial property classifications.

Eligibility criteria vary among the available property tax abatement programs, which are administered at the local government level. Company officials should contact their local economic development organizations to discuss property tax abatement programs.

Available programs include:

#### ***Plant Rehabilitation and Industrial Development District***

**Public Act 198 (PA 198)** provides property tax abatements to industrial processors, high-technology activity companies, research & development laboratories and large communication centers, which can reduce certain property taxes by up to 50% through the Industrial Facilities Tax. A PA 198 abatement is negotiated at the local level and is available for up to 12 years. Investment made within the negotiated time will be eligible for the abatement. Once the abatement is granted, businesses are required to instead pay an Industrial Facilities Tax (IFT), which will significantly lower their property tax bill.

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### *New Personal Property Exemption*

**Public Act 328 of 1998 (PA 328)** allows distressed communities, county seats and certain border county communities to abate all new personal property taxes in order to spur economic development. After local approval, the entire millage rate is abated under PA 328. All new personal property installed by an eligible business is 100% exempt from personal property taxes for a specified period determined by the local unit of government. The exemption is not project-specific and would exempt all new personal property installed by the business for the time specified by the local unit of government.

### *Obsolete Property Exemption Act (OPRA)*

**Public Act 146 of 2000** provides for a tax incentive to encourage the redevelopment of obsolete buildings into commercial sites or commercial housing. The tax incentive is designed to assist in the redevelopment of older buildings in which a facility is contaminated, blighted or functionally obsolete. The taxable value on a facility is frozen for up to 12 years. By freezing the taxable value, a business can significantly improve a building without increasing the property taxes on the building.

### *Commercial Rehabilitation Act*

**Public Act 210 of 2005** provides a property tax abatement for commercial real property that is 15 years or older, where the primary purpose and use is the operation of a commercial business enterprise or multi-family residential use. The commercial rehabilitation tax freezes the taxable value of that building and only levies specific taxes on the new investments.

### *Renaissance Zones*

**Renaissance Zones** are regions of the state set aside as virtually tax-free for any business or resident that locates in one of the designated zones. Taxes that are due are those mandated by the federal government, local bond obligations, school sinking funds or special assessments. The life of the Renaissance Zone varies, and in all cases, the tax relief will be phased out in 25% increments over the last three years of the zone.

## ADDITIONAL SERVICES AND PROGRAMS

### *SBTDC Network*

Michigan has a network of Small Business & Technology Development Centers (SBTDCs) around the state to assist entrepreneurs and small business owners in establishing and growing a business. The SBTDC network provides direct counseling, training and research for people with new and existing small businesses. Information about the network can be found at [www.gvsu.edu/misbtdc](http://www.gvsu.edu/misbtdc) or by calling 616.331.7480.

### *Capital Access Program*

Approximately 40 Michigan financial institutions participate in the Capital Access Program (CAP). Participating banks offer CAP loans directly to companies that need credit enhancement, including long or short-term loans, term loans or lines of credit. Eligible companies must contact participating lenders directly, as the CAP loans are private transactions between the bank and the borrower. The maximum loan amount is \$5 million. Eligible firms include for-profit businesses with no more than 500 employees. For more information on CAP, visit [www.michiganbusiness.org/capital-access-program](http://www.michiganbusiness.org/capital-access-program).

### *Guide to Starting and Operating a Small Business*

The Guide to Starting and Operating a Small Business contains information on a variety of small business topics, including information on business plans, financing and managing your business. The guide can be found online at [www.michiganbusiness.org/startupguide](http://www.michiganbusiness.org/startupguide).