

Technical corrections were made to this notice on September 6, 2016 by Revenue Notice # 16-05. Please see Revenue Notice # 16-05 for the corrected language.

Department of Revenue

Revenue Notice # 10-04: Individual Income and Corporate Franchise Tax – Credits and Additions to Federal Taxable Income – Michigan Business Tax

Introduction

“Taxes based on net income” and paid to another state qualify for a credit under *Minnesota Statutes*, section 290.06, subdivision 22 and the additions to federal taxable income under *Minnesota Statutes*, section 290.01, subdivisions 19a(4) and 19c(1).

The Minnesota Department of Revenue’s position regarding whether the Ohio Commercial Activity Tax (CAT), Texas business margin tax and Wisconsin recycling surcharge constitute taxes based on net income can be found in Revenue Notice # 08-08.

The department’s position regarding whether the Michigan Business Tax (MBT) constitutes a tax based on net income is below. This position was determined as of the date of this Revenue Notice. If the MBT is modified, the department’s position may change.

Background

The MBT is composed of a business income tax, a modified gross receipts tax, and a surcharge. The determination of the business income tax begins with federal taxable income followed by additions and deductions generally associated with a net-income tax. The gross receipts tax begins with gross receipts less purchases from other firms before apportionment. The gross receipts tax is imposed on the privilege of doing business and not on income or property. The surcharge is the lesser of a minimum amount or a percentage of the business income tax and the gross receipts tax combined. Credits reduce the business income tax, gross receipts tax, surcharge or a combination thereof. A different tax base is provided for insurance companies and financial organizations.

Department Position

It is the department’s position that the following portion of the MBT is a tax based on net income: the business income tax, plus a portion of the surcharge attributable to the business income tax, less credits that reduce the business income tax. The remainder of the MBT is not a tax based on net income.

Business Income Tax: The business income tax is determined under *Michigan Compiled Laws*, section 208.1201.

Portion of the Surcharge Attributable to the Business Income Tax: The surcharge is determined under *Michigan Compiled Laws*, section 208.1281. To determine the portion of the surcharge attributable to the business income tax, multiply the surcharge by a fraction where the numerator is the business income tax and the denominator is the business income tax plus the gross receipts tax. In other words, the portion of the surcharge attributable to the business income tax equals “A” where:

$$A = \text{Surcharge} \times \left(\frac{\text{Business Income Tax}}{\text{Business Income Tax} + \text{Gross Receipts Tax}} \right)$$

Credits that Reduce the Business Income Tax: Credits are provided under *Michigan Compiled Laws*, sections 208.1400 through 208.1461. To identify credits that reduce the business income tax, determine whether the credit reduces the business income tax, gross receipts tax, surcharge or a combination thereof. Include those credits that only reduce the business income tax. Also, as illustrated by two examples below, include a portion of any credit that reduces the business income tax in combination with the gross receipts tax and/or surcharge.

First example: The compensation credit, provided by *Michigan Compiled Laws*, section 208.1403, reduces the combination of the business income tax and gross receipts tax. The portion of the compensation credit that reduces the business income tax is determined by multiplying the allowed credit by a fraction where the numerator is the business income tax and the denominator is the business income tax plus the gross receipts tax.

In other words, the portion of the allowed compensation credit that reduces the business income tax equals “B” where:


$$B = \text{Compensation Credit} \times \left(\frac{\text{Business Income Tax}}{\text{Business Income Tax} + \text{Gross Receipts Tax}} \right)$$

Second example: The charitable contribution credit, provided by *Michigan Compiled Laws*, section 208.1421, reduces the combination of the business income tax, gross receipts tax and surcharge. The portion of the charitable contribution credit that reduces the business income tax is determined by multiplying the allowed credit by a fraction where the numerator is the business income tax plus the portion of the surcharge attributable to the business income tax and the denominator is the business income tax, plus the gross receipts tax and the surcharge.

In other words, the portion of the allowed charitable contribution credit that reduces the business income tax equals “C” where “A” is the portion of the surcharge attributable to the business income tax as calculated above:

$$C = \text{Charitable Contribution Credit} \times \left(\frac{\text{Business Income Tax} + A}{\text{Business Income Tax} + \text{Gross Receipts Tax} + \text{Surcharge}} \right)$$

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