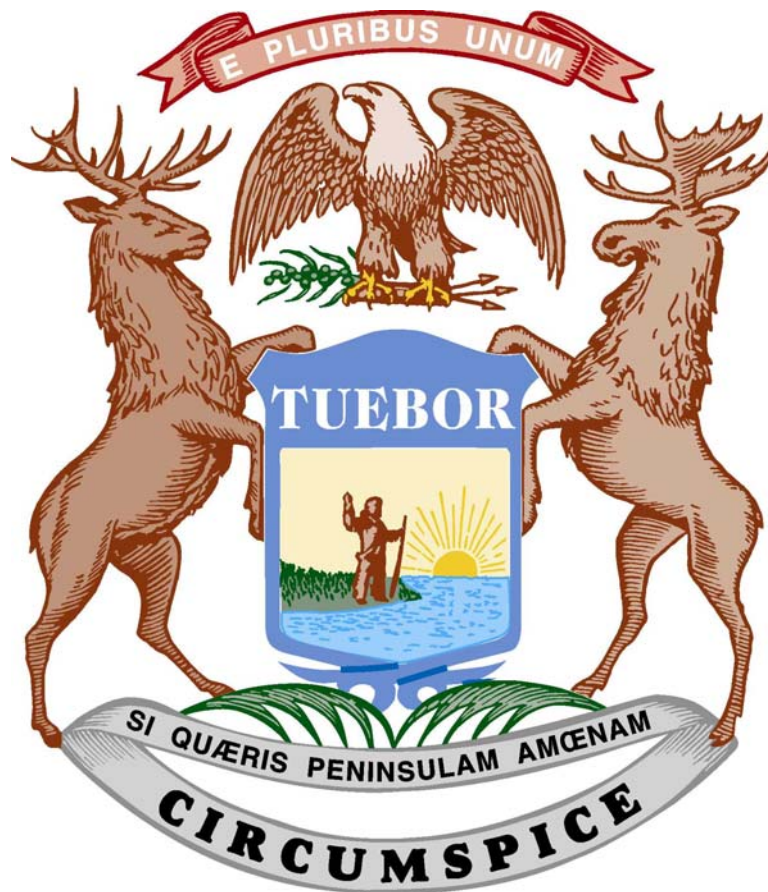


The Michigan Single Business Tax Statistical Tables 2001-2002



Michigan Department of Treasury
Office of Revenue and Tax Analysis
September 2007

**THE MICHIGAN SINGLE BUSINESS TAX
STATISTICAL TABLES
2001-2002**

**Office of Revenue and Tax Analysis, Tax Analysis Division
Michigan Department of Treasury
September 2007**

Acknowledgments

This report was prepared by Thomas Patchak-Schuster, Office of Revenue and Tax Analysis, under the direction of Howard Heideman, Director of the Tax Analysis Division (TAD). Denise Heidt provided analytical and editorial assistance. Eric Krupka, provided research assistance. Jeri Trotter of the Tax Policy Division provided tables. Diane Burton provided production assistance.

LIST OF EXHIBITS

| <u>Exhibit</u> | | <u>Page</u> |
|----------------|--|-------------|
| 1 | Single Business Tax Revenue History..... | 2 |
| 2 | SBT Revenues as a Percent of Total State Tax Revenues and as a Percent of State Personal Income | 3 |
| 3 | Single Business Tax, 2001-2002..... | 4 |
| 4 | 2001-2002 Tax Liability Breakdown..... | 5 |
| 5 | Distribution of SBT Liability - 2001-2002 | 6 |
| 6 | Distribution of Firms Filing an SBT Return - 2001-2002 | 6 |
| 7 | Comparison: Pure Value-Added Tax and Michigan SBT | 7 |
| 8 | State Standard Apportionment Formulas of Corporate Income | 8 |
| 9 | Michigan Single Business Tax Filing Provisions | 9 |
| 10 | Calculation of SBT Liability..... | 12 |
| 11 | Michigan Tax Base, 2001-2002..... | 13 |
| 12 | Components of the Michigan Tax Base, 2001-2002 | 14 |
| 13 | Capital Acquisition Deduction Recapture, 2001-2002 | 15 |
| 14 | Business Loss Deduction, 2001-2002..... | 16 |
| 15 | Statutory Exemption, 2001-2002..... | 17 |
| 16 | Excess Compensation and Gross Receipts Filing Methods, 2001-2002..... | 18 |
| 17 | Alternate Tax Rate and Straight Percentage Methods, 2001-2002..... | 19 |
| 18 | Claimed Investment Tax Credit, 2001-2002..... | 20 |
| 19 | Effective Investment Tax Credit, 2001-2002..... | 21 |
| 20 | SBT Small Business Credit: Illustrative Examples | 22 |

| <u>Exhibit</u> | <u>Page</u> |
|--|--------------------|
| 21 Other Major Tax Credits, 2001-2002..... | 23 |
| 22 Single Business Tax by Type of Firm, 2001-2002 | 24 |
| 23 Ratio of Tax Liability to Michigan Tax Base, 2001-2002..... | 25 |
| 24 Effective Rates, 2001-2002..... | 26 |
| 25 Tax Adjustments as a Percent of Michigan Tax Base, 2001-2002 | 27 |
| 26 SBT Liability Statistics, 2001-2002..... | 28 |
| 27 Comparing SBT With a Corporate Income Tax | 29 |
| 28 States With a Corporate Income Tax: TY 2005 Highest Marginal Rate for Each State..... | 30 |
| 29 State and Local Business Taxes as a Percent of Gross State Product (GSP) and Personal Income COST Study, FY 2005 | 31 |

EXECUTIVE SUMMARY

- The Single Business Tax (SBT) is a modified value-added tax (VAT). A pure VAT's tax base equals the value a firm adds to its products. Unlike a pure VAT, the SBT provides several exemptions from and deductions to value added. In addition, the SBT also offers numerous credits, which a pure VAT does not. For firms taxable in another state, the SBT's tax base is apportioned based mainly on the share of the firm's sales in Michigan.
- FY 2005 SBT revenues totaled \$2,074 million, up 4.1 percent from FY 2004 but down 15.8 percent from FY 1999's peak revenues. FY 2005 SBT revenues equaled 0.66 percent of Michigan personal income and accounted for 9.0 percent of State taxes and 25.7 percent of General Fund/General Purpose tax revenue.
- The SBT rate dropped from 2.3 percent to 2.2 percent for 1999, to 2.1 percent for 2000, to 2.0 percent for 2001 and to 1.9 percent for 2002.
- SBT revenue for tax years ending in December 2001 through November 2002 was \$1,865 million, an 11.5% decline from the prior year.
- Larger firms pay the majority of the SBT. Firms with a 2001-2002 SBT liability greater than \$10,000 accounted for only 22.1 percent of firms with an SBT liability, but 88.1 percent of total SBT revenues. Conversely, firms with an SBT liability less than \$1,000 comprised 45.2 percent of all filers but only 0.6 percent of total revenues.
- Among major industrial classifications, manufacturing firms accounted for the largest share of 2001-2002 SBT revenue (26.6 percent), followed closely by the services sector (26.5 percent).
- The business loss deduction (claimed capital acquisition deductions (CADs) not used in prior years and carried forward), reduced Michigan tax base by 5.0 percent. Recapture of previously claimed CADs increased Michigan tax base by 1.7 percent.
- Firms for which compensation accounts for more than 63 percent of their tax base may claim an excess compensation deduction. The excess compensation deduction reduced 2001-2002 SBT tax liability by \$319.4 million. The gross receipts reduction method assures that no firm's tax base exceeds half of its adjusted gross receipts. The gross receipts reduction method reduced firms' SBT liability by \$205.3 million.
- The investment tax credit (ITC) is the SBT's largest tax credit. In 2001-2002, firms claimed \$254.6 million. Effective investment tax credits totaled \$162.1 million. Effective ITC reduced SBT tax base by 5.7 percent.

- The small business/alternate tax credit is the SBT's second largest tax credit and is only slightly smaller than the ITC. In 2001-2002, firms claiming the credit reduced their SBT liability by \$160.2 million.
- The Unincorporated/S Corporation credit reduced 2001-2002 SBT liability by \$78.8 million.
- Corporations paid 64.8 percent of the 2001-2002 SBT liability. S Corporations paid 19.4 percent.
- In 2001-2002, the overall effective SBT tax rate equaled 1.3 percent. Across all major industrial classes, the effective SBT tax rate tends to rise as company size increases.
- In 2001-2002, SBT liability equaled 1.6 percent of apportioned compensation and 0.3 percent of apportioned gross receipts.
- If the SBT were to be substituted with a standard CIT, the average rate necessary to generate the same amount of revenue today from corporations based on history from 1977 until 2001 would be 7.21 percent. This rate is not much higher than the CIT rates imposed by many other states.
- In fiscal year 2005, Michigan's *total* state/local business tax burden was tied for 12th lowest as a percent of private sector gross state product and ranked 13th lowest as a percent of personal income. Because business taxes other than corporate taxes comprise a larger share of most other states' business taxes, Michigan's total state/local business tax ranking is more favorable than Michigan's corporate tax ranking.

Data

Data for this report were compiled from tax returns filed for tax years ending in December 2001 through November 2002. For the purposes of this report, two categories of filers were eliminated from the analysis. The first category includes firms that had no liability and were not required to file because they were below the gross receipts filing threshold. The second category includes firms that had no liability and provided insufficient information to calculate a liability. Excluding these two categories of returns, aggregated statistics that appear in this report are based on the remaining 150,459 SBT filers.

Whenever possible, tables and graphs that appear in this report use data from the total population of cleared returns. However, in some instances it was necessary to omit certain firms from aggregated statistics. For example, firms that filed but had a tax base of zero (possibly because they used the gross receipts short method to file or filled out the simplified form) were excluded from the calculation of components of the MTB (see Exhibit 12, page 14) and effective tax rate calculations (see Exhibits 23 and 24, pages 25 and 26). In addition, a number of firms were omitted from calculation of SBT liability as a percent of gross receipts (see Exhibit 26, page 28), as they did not provide needed information. These instances were noted in the relevant tables and graphs.

Exhibit 1
Single Business Tax Revenue History*

| <u>Fiscal Year</u> | <u>SBT Revenue (Millions)</u> | <u>Percent Change From Prior Year</u> | <u>Percent of Total State Taxes **</u> | <u>Percent of State Personal Income ***</u> |
|---------------------------|--------------------------------------|--|---|--|
| 1980 | \$1,225 | 10.3 % | 20.0 % | 1.31 % |
| 1981 | 1,053 | -14.0 | 17.0 | 1.04 |
| 1982 | 1,047 | -0.6 | 16.4 | 1.00 |
| 1983 | 1,143 | 9.2 | 15.6 | 1.05 |
| 1984 | 1,384 | 21.0 | 16.5 | 1.15 |
| 1985 | 1,495 | 8.1 | 16.7 | 1.14 |
| 1986 | 1,675 | 12.0 | 18.1 | 1.19 |
| 1987 | 1,638 | -2.2 | 17.1 | 1.12 |
| 1988 | 1,873 | 14.3 | 18.2 | 1.21 |
| 1989 | 1,922 | 2.6 | 17.7 | 1.16 |
| 1990 | 1,877 | -2.3 | 17.0 | 1.08 |
| 1991 | 1,750 | -6.8 | 14.9 | 0.97 |
| 1992 | 1,863 | 6.5 | 15.2 | 0.98 |
| 1993 | 1,979 | 6.2 | 15.4 | 0.99 |
| 1994 | 2,230 | 12.7 | 14.8 | 1.04 |
| 1995 | 2,344 | 5.1 | 13.4 | 1.04 |
| 1996 | 2,393 | 2.1 | 12.9 | 1.02 |
| 1997 | 2,407 | 0.6 | 12.4 | 0.98 |
| 1998 | 2,492 | 3.5 | 12.1 | 0.96 |
| 1999 | 2,560 | 2.7 | 11.7 | 0.93 |
| 2000 | 2,517 | -1.7 | 11.0 | 0.86 |
| 2001 | 2,224 | -11.6 | 9.9 | 0.75 |
| 2002 | 2,211 | -0.6 | 10.0 | 0.73 |
| 2003 | 2,074 | -6.2 | 9.2 | 0.67 |
| 2004 | 2,071 | -0.1 | 9.1 | 0.65 |
| 2005 | 2,157 | 4.1 | 9.0 | 0.66 |

* Includes insurance company retaliatory taxes.

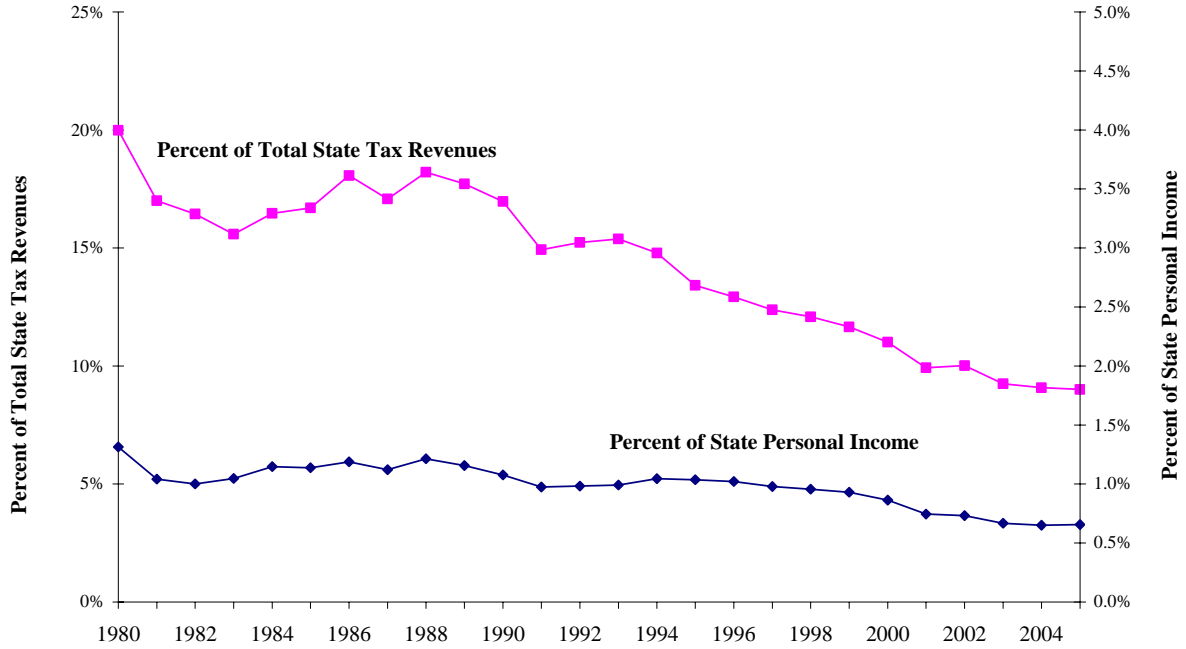
** Does not include fees, permits or licenses.

*** Based on Bureau of Economic Analysis state personal income data, December 20, 2006 release.

Source: State of Michigan Comprehensive Annual Financial Reports and Bureau of Economic Analysis.

Calculations by the Office of Revenue and Tax Analysis, Michigan Dept of Treasury.

Exhibit 2
SBT Revenues* as a Percent of Total State Tax Revenues
and as a Percent of State Personal Income



* Includes taxes paid by insurance companies.

Source: State of Michigan Comprehensive Annual Financial Report and Executive

Exhibit 3
Single Business Tax, 2001-2002

| <u>Business Sector</u> | <u>Number of Firms</u> | <u>Percent of Firms</u> | <u>Tax Liability</u> | <u>Percent of Liability</u> |
|-------------------------------------|------------------------|-------------------------|----------------------|-----------------------------|
| Agriculture, Forestry, and Fishing | 2,335 | 1.6 % | \$9,936,124 | 0.5 % |
| Mining | 501 | 0.3 | 5,950,729 | 0.3 |
| Construction | 15,835 | 10.5 | 116,975,047 | 6.3 |
| Manufacturing | 14,986 | 10.0 | 496,616,423 | 26.6 |
| Other Durable Manufacturers | 5,898 | 3.9 | 133,788,334 | 7.2 |
| Non-Durable Manufacturers | 3,488 | 2.3 | 153,336,061 | 8.2 |
| Primary Metals | 562 | 0.4 | 22,519,648 | 1.2 |
| Fabricated Metals | 2,222 | 1.5 | 52,017,486 | 2.8 |
| Machinery--Except Electrical | 2,109 | 1.4 | 47,604,637 | 2.6 |
| Transportation Equipment | 707 | 0.5 | 87,350,257 | 4.7 |
| Transportation | 3,975 | 2.6 | 42,917,364 | 2.3 |
| Communications and Utilities | 1,515 | 1.0 | 105,504,239 | 5.7 |
| Wholesale Trade | 5,393 | 3.6 | 96,042,036 | 5.1 |
| Retail Trade | 34,365 | 22.8 | 289,178,561 | 15.5 |
| Finance, Insurance, and Real Estate | 17,013 | 11.3 | 131,408,820 | 7.0 |
| Services | 45,369 | 30.2 | 494,114,167 | 26.5 |
| Not Elsewhere Classified/Misc. | <u>9,172</u> | <u>6.1</u> | <u>76,546,531</u> | <u>4.1</u> |
| All Businesses | 150,459 | 100.0 % | \$1,865,190,041 | 100.0 % |

Note: Liability figures represent tax years ending December 2001 or January through November 2002.

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 4
2001-2002 Tax Liability Breakdown

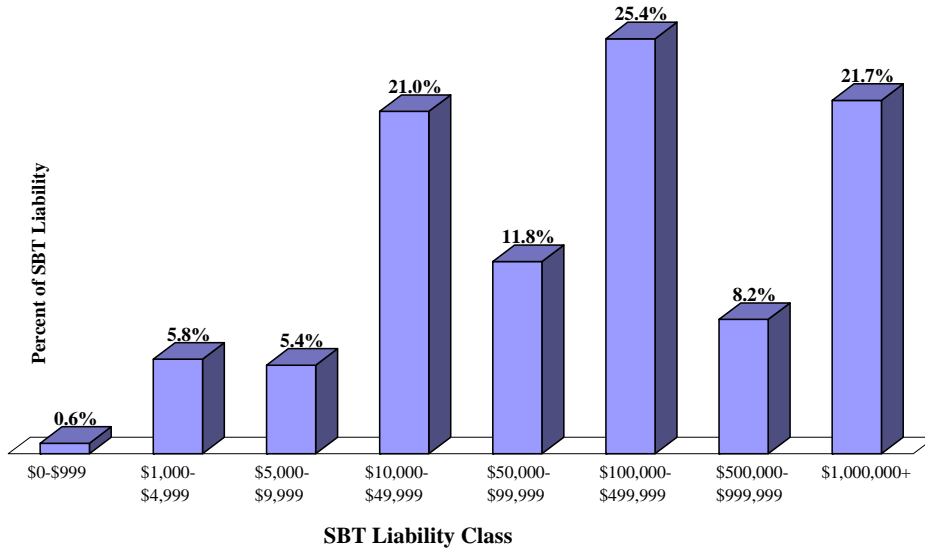
| <u>Liability Class</u> | <u>Number of Firms</u> | <u>Percent of Firms</u> | <u>Cumulative Percent</u> | <u>Tax Liability</u> | <u>Percent of Liability</u> | <u>Cumulative Percent</u> |
|------------------------|------------------------|-------------------------|---------------------------|----------------------|-----------------------------|---------------------------|
| \$1,000,000 - and over | 154 | 0.10 % | 0.10 % | \$404,184,701 | 21.67 % | 21.67 % |
| \$500,000 - \$999,999 | 228 | 0.15 | 0.25 | 153,650,952 | 8.24 | 29.91 |
| \$100,000 - \$499,999 | 2,418 | 1.61 | 1.86 | 474,584,730 | 25.44 | 55.35 |
| \$50,000 - \$99,999 | 3,168 | 2.11 | 3.97 | 219,783,680 | 11.78 | 67.14 |
| \$10,000 - \$49,999 | 18,112 | 12.04 | 16.00 | 391,498,507 | 20.99 | 88.13 |
| \$5,000 - \$9,999 | 14,318 | 9.52 | 25.52 | 101,340,591 | 5.43 | 93.56 |
| \$1,000 - \$4,999 | 44,060 | 29.28 | 54.80 | 108,114,099 | 5.80 | 99.35 |
| \$500 - \$999 | 11,569 | 7.69 | 62.49 | 8,644,852 | 0.46 | 99.82 |
| \$100 - \$499 | 10,951 | 7.28 | 69.77 | 3,205,570 | 0.17 | 99.99 |
| \$50 - \$99 | 1,841 | 1.22 | 71.00 | 136,371 | 0.01 | 100.00 |
| \$1 - \$49 | 1,983 | 1.32 | 72.31 | 45,988 | 0.00 | 100.00 |
| \$0 | 41,657 | 27.69 | 100.00 | No Liability | 0.00 | 100.00 |
| Total | 150,459 | 100.00 % | | \$1,865,190,041 | 100.00 % | |

| <u>Michigan Tax Base Class</u> | <u>Number of Firms</u> | <u>Percent of Firms</u> | <u>Cumulative Percent</u> | <u>Tax Liability</u> | <u>Percent of Liability</u> | <u>Cumulative Percent</u> |
|--------------------------------|------------------------|-------------------------|---------------------------|----------------------|-----------------------------|---------------------------|
| \$100,000,000 - and over | 95 | 0.06 % | 0.06 % | \$325,177,784 | 17.43 % | 17.43 % |
| \$50,000,000 - \$99,999,999 | 128 | 0.09 | 0.15 | 124,855,642 | 6.69 | 24.13 |
| \$10,000,000 - \$49,999,999 | 1,627 | 1.08 | 1.23 | 444,272,531 | 23.82 | 47.95 |
| \$5,000,000 - \$9,999,999 | 2,376 | 1.58 | 2.81 | 221,161,231 | 11.86 | 59.80 |
| \$2,000,000 - \$4,999,999 | 6,880 | 4.57 | 7.38 | 279,075,393 | 14.96 | 74.77 |
| \$1,000,000 - \$1,999,999 | 10,339 | 6.87 | 14.25 | 171,982,741 | 9.22 | 83.99 |
| \$500,000 - \$999,999 | 17,673 | 11.75 | 26.00 | 130,845,148 | 7.02 | 91.00 |
| \$100,000 - \$499,999 | 62,857 | 41.78 | 67.78 | 138,878,680 | 7.45 | 98.45 |
| \$50,000 - \$99,999 | 14,101 | 9.37 | 77.15 | 6,586,236 | 0.35 | 98.80 |
| \$1 - \$49,999 | 14,409 | 9.58 | 86.72 | 1,294,208 | 0.07 | 98.87 |
| \$0 or less | 19,974 * | 13.28 | 100.00 | 21,060,447 | 1.13 | 100.00 |
| Total | 150,459 | 100.00 % | | \$1,865,190,041 | 100.00 % | |

* Includes gross receipts short-method filers who do not report their Michigan Tax Base (recorded as zero).

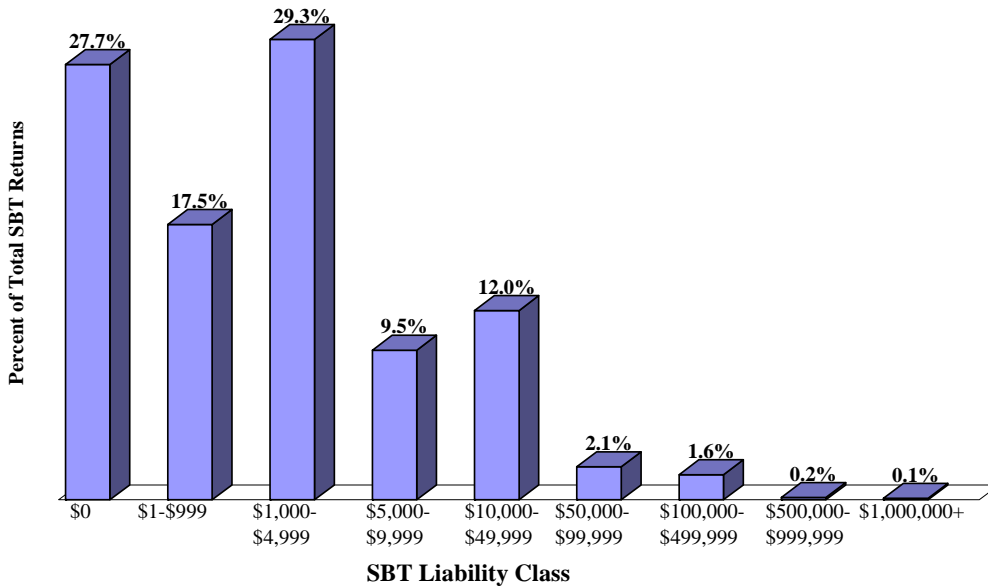
Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

**Exhibit 5
Distribution of SBT Liability
2001-2002**



Note: Includes all firms filing SBT returns using forms C-8000 and C-8044. Figures may not sum to 100% due to rounding.
Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

**Exhibit 6
Distribution of Firms Filing an SBT Return
2001-2002**



Note: Includes all firms filing SBT returns using forms C-8000, and C-8044. Figures may not sum to 100% due to rounding.
Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 7 Comparison: Pure Value-Added Tax and Michigan SBT

| | <u>Tax Base</u> | <u>Minus</u> | <u>Exemptions, Reductions and Deductions</u> | <u>Times</u> | <u>Tax Rate</u> | <u>Minus</u> | <u>Credits</u> |
|---|--|--------------|---|--------------|-----------------|--------------|--|
| Pure VAT (Consumption Type) | Profits Interest Paid Dividends Paid Compensation (Capital Expenditures) | - | None | x | Determined | - | None |
| Michigan Single Business Tax | FTI* Additions Compensation Depreciation (Subtractions) | - | Agricultural Producers Exemption Business Loss Deduction Compensation Exemption Excess Compensation Reduction FICA, UI and WC Exemption Floor Plan Interest Deduction Government Utilities Exemption Gross Receipts Reduction Health Insurance Deduction **** Multiple Welfare Dental Exemption Nonprofit Organization Exemption PEO Compensation Exemption Statutory Exemption | x | 1.9% *** | - | Apprenticeship Brownfield Community Foundation Corporate Farm Property Tax Donated Automobile Enterprise Zone Higher Education Historic Preservation Homeless Shelter/Food Bank Industrial Personal Property Tax Insurers' Facility Assessment Investment Tax Credit** Low Grade Iron Ore MEGA Non Refundable MEGA Refundable Next Energy Non Refundable Next Energy Refundable Pharmaceutical R&D Qualified Start-up Business Renaissance Zone Research and Development Small Business/Low Profit Supplemental Workers Comp. Unincorporated Business Utility Property Tax Venture Capital Fund |

* Federal Taxable Income is equal to revenue minus costs minus depreciation.

** Capital Expenditures are no longer deducted from tax base for tax years after 1999 and have been replaced by an Investment Tax Credit (Public Act 115 of 1999).

*** Effective January 1, 1999, rate is cut 0.1 percentage point annually, unless the Countercyclical Budget and Economic Stabilization Fund (BSF) fiscal year ending balance is \$250 million or less (Public Act 115 of 1999). In fiscal year 2002, the BSF year ending balance fell below \$250 million and remained below \$250 million through the end of FY 2005. Thus, the SBT rate will remain at 1.9 percent through 2006. PA 325 of 2006 repeals the SBT entirely for tax years beginning after December 31, 2007.

**** For tax years beginning in 2004, 5 percent of payments for health benefits are exempt. The exempt percentage will rise to 20 percent for tax years beginning in 2005, 40 percent for tax years beginning in 2006, and 50 percent for tax years beginning after 2006.

Exhibit 8
State Standard Apportionment Formulas of Corporate Income*
(Formulas for TY 2004)**

| State | Weights | | | State | Weights | | | | |
|---------------|--------------|-----------------|----------------|---------------|----------------|-----------------|----------------|------|------|
| | Sales Factor | Property Factor | Payroll Factor | | Sales Factor | Property Factor | Payroll Factor | | |
| Alabama | 33.3 | 33.3 | 33.3 | Missouri | (10) | 33.3 | 33.3 | 33.3 | |
| Alaska | 33.3 | 33.3 | 33.3 | | | 100 | 0 | 0 | |
| Arizona | 50 | 25 | 25 | Montana | | 33.3 | 33.3 | 33.3 | |
| Arkansas | 50 | 25 | 25 | Nebraska | | 100 | 0 | 0 | |
| California | 50 | 25 | 25 | New Hampshire | | 50 | 25 | 25 | |
| Colorado | (1) | 33.3 | 33.3 | 33.3 | New Jersey | | 50 | 25 | 25 |
| | | 50 | 50 | 0 | New Mexico | (11) | 33.3 | 33.3 | 33.3 |
| Connecticut | (2) | 50 | 25 | 25 | | | 50 | 25 | 25 |
| | (3) | 100 | 0 | 0 | New York | | 50 | 25 | 25 |
| Delaware | | 33.3 | 33.3 | 33.3 | North Carolina | | 50 | 25 | 25 |
| Florida | | 50 | 25 | 25 | North Dakota | | 33.3 | 33.3 | 33.3 |
| Georgia | (4) | 50 | 25 | 25 | Ohio | | 60 | 20 | 20 |
| Hawaii | | 33.3 | 33.3 | 33.3 | Oklahoma | (12) | 33.3 | 33.3 | 33.3 |
| Idaho | | 50 | 25 | 25 | | | 50 | 25 | 25 |
| Illinois | | 100 | 0 | 0 | Oregon | (13) | 80 | 10 | 10 |
| Indiana | | 50 | 25 | 25 | Pennsylvania | | 60 | 20 | 20 |
| Iowa | | 100 | 0 | 0 | Rhode Island | | 33.3 | 33.3 | 33.3 |
| Kansas | | 33.3 | 33.3 | 33.3 | South Carolina | (14) | 50 | 25 | 25 |
| Kentucky | | 50 | 25 | 25 | | (15) | 100 | 0 | 0 |
| Louisiana | (5) | 50 | 25 | 25 | Tennessee | | 50 | 25 | 25 |
| | | 33.3 | 33.3 | 33.3 | Utah | | 33.3 | 33.3 | 33.3 |
| Maine | | 50 | 25 | 25 | Vermont | (16) | 33.3 | 33.3 | 33.3 |
| Maryland | | 50 | 25 | 25 | Virginia | | 50 | 25 | 25 |
| Massachusetts | | 50 | 25 | 25 | West Virginia | | 50 | 25 | 25 |
| Minnesota | (6) | 75 | 12.5 | 12.5 | Wisconsin | | 50 | 25 | 25 |
| Mississippi | (7) | 33.3 | 33.3 | 33.3 | | | | | |
| | (8) | 50 | 25 | 25 | | | | | |
| | (9) | 100 | 0 | 0 | | | | | |

Summary:

| | | | |
|--|----|--|---|
| Number of States using 1/3, 1/3, 1/3 formula | 10 | Number of states using multiple formulas: | |
| Number of States using 50-25-25 formula | 19 | with highest sales factor at 50 percent | 4 |
| Number of States using sales factor above 50 percent | 7 | with highest sales factor above 50 percent | 4 |

* Does not include special apportionment rules that apply to specific industries, nor formulas for states with no Corporate Income Tax.
** as of January 1, 2004.

- | | |
|--|--|
| (1) Option between three-factor or two-factor formulae. | (11) Firms that meet certain requirements have the option to use double-weighted sales factor formula. |
| (2) Formula used by other sectors. | (12) Some corporations are allowed to use the double-weight sales factor formula. |
| (3) Formula used by manufacturing and broadcasting. | (13) After June 30, 2005, 100% sales factor formula. |
| (4) Effective 01/01/08 changed to 100% sales factor weight. | (14) Formula used by manufacturers or dealers in tangible personal property. |
| (5) Formula for manufacturing and merchandising. | (15) Formula used by other sectors. |
| (6) Phasing in 100% sales weight between 2007-2014. | (16) After December 31, 2005, taxpayers may elect to use a 50-25-25 apportionment formula. |
| (7) Formula used by manufacturers selling at wholesale. | |
| (8) Formula used by manufacturers selling at retail. | |
| (9) Formula used by retailers, service companies, and lessors. | |
| (10) Corporations other than certain public utilities and transportation companies may choose between three-factor formula and single-factor of sales. | |

Source: RIA Checkpoint and Federation of Tax Administrators.

Exhibit 9

Michigan Single Business Tax Filing Provisions 1976-1993

| | <u>MCL Section</u> | <u>RAB,O&A</u> | <u>1976</u> | <u>1977-1983</u> | <u>1984</u> | <u>1985-1987</u> | <u>1988</u> | <u>1989</u> | <u>1990</u> | <u>1991</u> | <u>1992</u> | <u>1993</u> |
|--|--------------------|--------------------|-------------|------------------|-------------|------------------|-------------|-------------|-------------|-------------|--------------|--------------|
| Gross Receipts Filing Requirements | 208.73(1) | | \$34,000 | \$40,000 | \$40,000 | \$40,000 | \$40,000 | \$40,000 | \$40,000 | \$60,000 | \$100,000 | \$100,000 |
| SBT Tax Rate Percentage | 208.31(1) | | 2.35% | 2.35% | 2.35% | 2.35% | 2.35% | 2.35% | 2.35% | 2.35% | 2.35% | 2.35% |
| Alternate Tax Rate Percentage | 208.36(4) | | | | | | | 4% | 4% | 4% | 3% | 3% |
| Apportionment % (Property/Payroll/Sales) | 208.45, 45a | | 33-33-33 | 33-33-33 | 33-33-33 | 33-33-33 | 33-33-33 | 33-33-33 | 33-33-33 | 30-30-40 | 30-30-40 | 25-25-50 |
| CAD Apportionment % | (b) 208.23, 23b | RAB 92-03 | 50-50 | 50-50 | 50-50 | 50-50 | 50-50 | 33-33-33 | 33-33-33 | 30-30-40 | 30-30-40 | 25-25-50 |
| Statutory Exemption | 208.35(1)(a) | RAB 89-51 | \$34,000* | \$40,000 | \$40,000 | \$40,000 | \$40,000 | \$41,000 | \$42,000 | \$43,000 | \$44,000 | \$45,000 |
| Additional Exemption | 208.35(1)(a) | RAB 89-51 | \$10,000 | \$12,000 | \$12,000 | \$12,000 | \$12,000 | \$12,000 | \$12,000 | \$12,000 | \$12,000 | \$12,000 |
| FICA, WC, UI in Compensation (d) | 208.4(3)(c)(d)(e) | | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| SBC Gross Receipts Disqualifier (disqualified if > \$) | 208.36(2) | | | \$3,000,000 | \$6,000,000 | \$6,000,000 | \$6,000,000 | \$7,000,000 | \$7,250,000 | \$7,500,000 | \$10,000,000 | \$10,000,000 |
| SBC Excess Gross Receipts Reduction | 208.36(6) | | | \$2,000,000 | \$5,000,000 | \$5,000,000 | \$5,000,000 | \$6,000,000 | \$6,250,000 | \$6,500,000 | \$9,000,000 | \$9,000,000 |
| SBC Adjusted Business Income (ABI) Disqualifier - Corp | 208.36(2) | | | \$300,000 | \$450,000 | \$475,000 | \$475,000 | \$475,000 | \$475,000 | \$475,000 | \$475,000 | \$475,000 |
| SBC ABI & Allocated Income Disqualifier | 208.36(2)(a)(b) | | | \$60,000 | \$90,000 | \$95,000 | \$95,000 | \$95,000 | \$95,000 | \$95,000 | \$95,000 | \$95,000 |
| Maximum Small Business Credit Allowed | 208.36(6) | Q&A S 1-S 22 | | 50% | 90% | 90% | 100% | 100% | 100% | 100% | 100% | 100% |
| Public/College Contrib. Credit (Not Ind/Fdcy) | (a) 208.38 | RAB 92-10 | (a) | (a) | (a) | (a) | (a) | (a) | (a) | (a) | (a) | (a) |
| Public Utilities Credit (Corp only) | 208.39 | | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% |
| Community Foundation Credit | (a) (c) 208.38c | RAB 92-10 | | | | | | (a) | (a) | (a) | (a) | (a) |
| Homeless Credit | (a) 208.38f | RAB 92-10 | | | | | | | | | (a) | (a) |
| Enterprise Zone Credit | 208.37a | RAB88-01,93-10 | | | | 85 No 86 Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Workers Comp (WDSB) Refundable Credit | 208.38b | | | | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Unincorporated/S-Corp Credit | 208.37 | | No | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| High Tech Credit | 208.37b | | No | No | No | 85 No 86 Yes | Yes | Yes | Yes | Yes | No | No |
| Job Tax Credit | 208.36a | | | 1983 only | | | | | | | | |
| Federal Unemployment Tax Act Credit | 208.38a | | | 1983 | yes | | | | | yes | yes | |
| Child Care Credit | 208.39a | | | 1981, 1982 | | | | | | | | |

(a) Smaller of \$5,000, 50 percent of contribution, or 5 percent of tax.

(b) Property/payroll until 10/1/89, then property/payroll/sales for tax years beginning after 09/30/89.

(c) Includes 1989 fiscal year filers.

(d) FICA denotes federal insurance contributions act (Social Security and Medicare). WC denotes workers compensation. UI denotes unemployment insurance.

* 1977 fiscal year filers \$36,000.

Source: Tax Policy Division, Michigan Department of Treasury.

Exhibit 9 (cont.) (1994-2000)

| | <u>MCL Section</u> | <u>RAB, O & A</u> | <u>1994</u> | <u>1995-1996</u> | <u>1997</u> | <u>1998</u> | <u>1999</u> | <u>2000</u> |
|--|-----------------------|-----------------------|--------------|------------------|--------------|--------------|--------------|--------------|
| Gross Receipts Filing Requirements (f) | 208.73(1), 39e(8) | | \$137,500 | \$250,000 | \$250,000 | \$250,000 | \$250,000 | \$250,000 |
| Gross Receipts Threshold, Controlled Group | (c) 208.73(5) | | \$100,000 | \$100,000 | \$100,000 | \$100,000 | \$100,000 | \$100,000 |
| SBT Tax Rate Percentage | (b)(e) 208.31(1) | | (b) 2.3% | 2.3% | 2.3% | 2.3% | 2.2% (e) | 2.1% (e) |
| Alternate Tax Rate Percentage | (b) 208.36(4) | | (b) 2% | 2% | 2% | 2% | 2% | 2% |
| Apportionment % (Property/Payroll/Sales) | 208.45, 45a | | 25-25-50 | 25-25-50 | 10-10-80 | 10-10-80 | 5-5-90 | 5-5-90 |
| CAD Apportionment % | 208.23, 23b | RAB 92-03 | 25-25-50 | 25-25-50 | 10-10-80 | 10-10-80 | 5-5-90 | No CAD |
| Investment Tax Credit | 208.35a | | | | | | | Yes |
| FICA, WC, UI in Compensation | 208.4(3)(c)(d)(e) | | Yes | No | No | No | No | No |
| Health and Welfare Plans in Compensation | 208.4(3)(f) | | Yes | Yes | Yes | Yes | Yes | Yes |
| Statutory Exemption | 208.35(1)(a) | RAB 89-51 | \$45,000 | \$45,000 | \$45,000 | \$45,000 | \$45,000 | \$45,000 |
| Additional Exemption | 208.35(1)(a) | RAB 89-51 | \$12,000 | \$12,000 | \$12,000 | \$12,000 | \$12,000 | \$12,000 |
| SBC Gross Receipts Disqualifier | 208.36(2) | | \$10,000,000 | \$10,000,000 | \$10,000,000 | \$10,000,000 | \$10,000,000 | \$10,000,000 |
| SBC Excess Gross Receipts Reduction | 208.36(6) | | \$9,000,000 | \$9,000,000 | \$9,000,000 | \$9,000,000 | \$9,000,000 | \$9,000,000 |
| SBC Adjusted Business Income (ABI) Disqualifier - Corp | 208.36(2) | | \$475,000 | \$475,000 | \$475,000 | \$475,000 | \$475,000 | \$475,000 |
| SBC ABI & Allocated Income Disqualifier | 208.36(2)(a)(b) | | \$95,000 | \$95,000 | \$95,000 | \$115,000 | \$115,000 | \$115,000 |
| SBC ABI & Allocated Income Reduct | (d) 208.36(2)(c), 36d | | | | | (d) | (d) | (d) |
| Public/College Contrib. Credit (Not Ind/Fdcy) | (a) 208.38 | RAB 92-10 | (a) | (a) | (a) | (a) | (a) | (a) |
| Community Foundation Credit | (a) 208.38c | RAB 92-10 | (a) | (a) | (a) | (a) | (a) | (a) |
| Homeless Credit | (a) 208.38f | RAB 92-10 | (a) | (a) | (a) | (a) | (a) | (a) |
| Public Utilities Credit (Corp only) | 208.39 | | 5% | 5% | 5% | 5% | 5% | 5% |
| Unincorporated/S-Corp Credit | 208.37 | | Yes | Yes | Yes | Yes | Yes | Yes |
| Enterprise Zone Credit | 208.37a | RAB 88-01, 93-10 | Yes | Yes | Yes | Yes | Yes | Yes |
| MEGA Credit, (Partially Refundable) | 208.37c & d | | | Yes | Yes | Yes | Yes | Yes |
| Low Grade Hematite Pellet Credit | 208.39d | | | | | | | |
| Renaissance Zone Credit | 208.39b | | | | Yes | Yes | Yes | Yes |
| Michigan Historic Preservation Credit | 208.39c | | | | | | Yes | Yes |
| Brownfield Credit - "old" | 208.38d | | | | Yes | Yes | Yes | Yes |
| Brownfield Credit - "new" approval window | 208.38g | | | | | | | Yes |
| Workers Comp (WDSB) Refundable Credit | 208.38b | | Yes | Yes | Yes | Yes | Yes | Yes |
| Apprentice Refundable Credit | 208.38e | | | | Yes | Yes | Yes | Yes |
| CAD Credit | 208.36c | | | | Yes | Yes | Yes | No |
| NEXT Energy Credit | 208.39e | | | | | | | |
| Pharmaceutical R&D Credit | 208.39f | | | | | | | |

(a) Smaller of \$5,000, 50 percent of contribution, or 5 percent of tax.

(b) Effective 10/1/94 SBT rate from 2.35 percent to 2.3 percent and Alternate Tax Rate from 3-2 percent. Blended rates required for TYE 10/94 thru 8/95.

(c) If total gross receipts for controlled group are over filing requirement, all members must file returns, effective for all tax years ending after 06/30/94.

Members of controlled groups whose gross receipts are less than \$100,000 should not be included in the summing of GRs to determine filing requirement.

These members are not required to file, but are required to be on the C-8009.

(d) Reduce credit by: 20 percent with \$95,001-\$99,999; 40 percent with \$100,000-\$104,999; 60 percent with \$105,000-\$109,999; 80 percent with \$110,000-\$114,999;

no credit if greater than \$115,000.

(e) Tax rate reduced by 0.1 percentage point annually beginning 1/1/99 whenever Rainy Day Fund balance for the prior fiscal year exceeds \$250M. Blended rates

required for FYE & short period returns.

(f) Beginning 2003, gross receipts filing threshold based on apportioned or allocated gross receipts. Prior to 2003, threshold based on apportioned or allocated gross receipts plus CAD recapture.

(g) Excludes a percent of health and welfare plan payments. Beginning after 12/31/03, 5%; After 12/31/04, 20%; after 12/31/05, 40%; after 12/31/06, 50%.

Nexus standard for MI SBT: Department's position is found in RAB 98-1 (1989 to current). Throwback sales eliminated for TY beginning 1/1/98.

IRC reference changed to that in effect on 1/1/1999 or, at the option of the taxpayer, in effect for the tax year (effective 7/14/99, PA 115 of 1999).

Initiated Law 2 of 2006 repeals SBT for tax years beginning after 12/31/2007.

Source: Tax Policy Division, Michigan Department of Treasury.

**Exhibit 9 (cont.)
(2001-2006)**

| | <u>MCL Section</u> | <u>RAB, O & A</u> | <u>2001</u> | <u>2002</u> | <u>2003-2004</u> | <u>2005</u> | <u>2006</u> |
|--|-----------------------|-----------------------|--------------|--------------|------------------|--------------|--------------|
| Gross Receipts Filing Requirements (f) | 208.73(1), 39e(8) | | \$250,000 | \$250,000 | \$350,000 | \$350,000 | \$350,000 |
| Gross Receipts Threshold, Controlled Group | (c) 208.73(5) | | \$100,000 | \$100,000 | \$100,000 | \$100,000 | \$100,000 |
| SBT Tax Rate Percentage | (b)(e) 208.31(1) | | 2.0% (e) | 1.9% (e) | 1.9% (e) | 1.9% (e) | 1.9% (e) |
| Alternate Tax Rate Percentage | (b) 208.36(4) | | 2% | 2% | 2% | 2% | 2% |
| Apportionment % (Property/Payroll/Sales) | 208.45, 45a | | 5-5-90 | 5-5-90 | 5-5-90 | 5-5-90 | 5-5-90 |
| CAD Apportionment % | 208.23, 23b | RAB 92-03 | No CAD | No CAD | No CAD | No CAD | No CAD |
| Investment Tax Credit | 208.35a | | Yes | Yes | Yes | Yes | Yes |
| FICA, WC, UI in Compensation | 208.4(3)(c)(d)(e) | | No | No | No | No | No |
| Health and Welfare Plans in Compensation | 208.4(3)(f) | | Yes | Yes | (g) | (g) | (g) |
| Statutory Exemption | 208.35(1)(a) | RAB 89-51 | \$45,000 | \$45,000 | \$45,000 | \$45,000 | \$45,000 |
| Additional Exemption | 208.35(1)(a) | RAB 89-51 | \$12,000 | \$12,000 | \$12,000 | \$12,000 | \$12,000 |
| SBC Gross Receipts Disqualifier | 208.36(2) | | \$10,000,000 | \$10,000,000 | \$10,000,000 | \$10,000,000 | \$10,000,000 |
| SBC Excess Gross Receipts Reduction | 208.36(6) | | \$9,000,000 | \$9,000,000 | \$9,000,000 | \$9,000,000 | \$9,000,000 |
| SBC Adjusted Business Income (ABI) Disqualifier - Corp | 208.36(2) | | \$475,000 | \$475,000 | \$475,000 | \$475,000 | \$475,000 |
| SBC ABI & Allocated Income Disqualifier | 208.36(2)(a)(b) | | \$115,000 | \$115,000 | \$115,000 | \$115,000 | \$115,000 |
| SBC ABI & Allocated Income Reduct | (d) 208.36(2)(c), 36d | | (d) | (d) | (d) | (d) | (d) |
| Public/College Contrib. Credit (Not Ind/Fdcy) | (a) 208.38 | RAB 92-10 | (a) | (a) | (a) | (a) | (a) |
| Community Foundation Credit | (a) 208.38c | RAB 92-10 | (a) | (a) | (a) | (a) | (a) |
| Homeless Credit | (a) 208.38f | RAB 92-10 | (a) | (a) | (a) | (a) | (a) |
| Public Utilities Credit (Corp only) | 208.39 | | 5% | 5% | 5% | 5% | 5% |
| Unincorporated/S-Corp Credit | 208.37 | | Yes | Yes | Yes | Yes | Yes |
| Enterprise Zone Credit | 208.37a | RAB 88-01, 93-10 | Yes | Yes | Yes | Yes | Yes |
| MEGA Credit, (Partially Refundable) | 208.37c & d | | Yes | Yes | Yes | Yes | Yes |
| Low Grade Hematite Pellet Credit | 208.39d | | Yes | Yes | Yes | Yes | Yes |
| Renaissance Zone Credit | 208.39b | | Yes | Yes | Yes | Yes | Yes |
| Michigan Historic Preservation Credit | 208.39c | | Yes | Yes | Yes | Yes | Yes |
| Brownfield Credit - "old" | 208.38d | | No | No | No | No | No |
| Brownfield Credit - "new" approval window | 208.38g | | Yes | Yes | Yes | Yes | Yes |
| Workers Comp (WDSB) Refundable Credit | 208.38b | | Yes | Yes | Yes | Yes | Yes |
| Apprentice Refundable Credit | 208.38e | | Yes | Yes | Yes | Yes | Yes |
| CAD Credit | 208.36c | | No | No | No | No | No |
| NEXT Energy Credit | 208.39e | | | | Yes | Yes | Yes |
| Pharmaceutical R&D Credit | 208.39f | | | | Yes | Yes | Yes |
| Qualified Start-up Business Credit | 208.31a | | | | | Yes | Yes |
| Created Jobs Credit | 208.37f | | | | | Yes | No |
| Donated Automobile Credit | 208.37g | | | | | Yes | Yes |
| Industrial Personal Property Tax Credit | 208.35d-h | | | | | | Yes |
| Research and Development Credit | 208.32 | | | | | | Yes |
| Other Information | | | | | | (b) | (b) |

(a) Smaller of \$5,000, 50 percent of contribution, or 5 percent of tax.

(b) Subtraction allowed for Small Business Innovation Research & Michigan Technology grants (PA 258 of 2004).

(c) If total gross receipts for controlled group are over filing requirement, all members must file returns, effective for all tax years ending after 06/30/94.

Members of controlled groups whose gross receipts are less than \$100,000 should not be included in the summing of GRs to determine filing requirement.

These members are not required to file, but are required to be on the C-8009.

(d) Reduce credit by: 20 percent with \$95,001-\$99,999; 40 percent with \$100,000-\$104,999; 60 percent with \$105,000-\$109,999; 80 percent with \$110,000-\$114,999; no credit if greater than \$115,000.

(e) Tax rate reduced by 0.1 percentage point annually beginning 1/1/99 whenever Rainy Day Fund balance for the prior fiscal year exceeds \$250M. Blended rates required for FYE & short period returns.

(f) Beginning 2003, gross receipts filing threshold based on apportioned or allocated gross receipts. Prior to 2003, threshold based on apportioned or allocated gross receipts plus CAD recapture.

(g) Excludes a percent of health and welfare plan payments. Beginning after 12/31/03, 5%; After 12/31/04, 20%; after 12/31/05, 40%; after 12/31/06, 50%.

Nexus standard for MI SBT: Department's position is found in RAB 98-1 (1989 to current). Throwback sales eliminated for TY beginning 1/1/98.

IRC reference changed to that in effect on 1/1/1999 or, at the option of the taxpayer, in effect for the tax year (effective 7/14/99, PA 115 of 1999).

The column for the year 2006 is based on the law in effect at the time of this printing.

Initiated Law 2 of 2006 repeals SBT for tax years beginning after 12/31/2007.

Source: Tax Policy Division, Michigan Department of Treasury.

Subsequent changes will be posted on the Treasury web site at: www.michigan.gov/treasury.

Exhibit 10
Calculation of SBT Liability

| | |
|---|---|
| | Compensation + Business Income + Additions - Subtractions <i>equals</i> |
| Section 1 | Total Tax Base |
| Computation of the Michigan Tax Base | <i>times</i> Apportionment Factor <i>equals</i> Michigan Tax Base (MTB) <i>minus</i> |
| <hr/> | |
| Section 2 | Net Capital Acquisition Deduction * Business Loss Deduction Statutory Exemption <i>equals</i> |
| Computation of the Adjusted Tax Base | Adjusted Tax Base (ATB) |
| <hr/> | |
| Section 3 | Excess Compensation Reduction Method Gross Receipts Reduction/Short Method Alternate Tax Rate Method Straight Percentage Method <i>times</i> |
| Filing Methods | Tax Rate <i>equals</i> Tax Liability Before Credits <i>less</i> |
| <hr/> | |
| Section 4 | Investment Tax Credit (ITC) * Small Business Credit Unincorporated/S Corporation Credit Public Utility Credit MEGA Credits Renaissance Zone Credit Other Credits <i>equals</i> |
| Credits | SBT Tax Liability |

* Public Act 115 of 1999 replaces the capital acquisition deduction with an ITC for tax years beginning after 1999. CADs still recaptured upon sale of capital on which CAD was previously eligible to be claimed.

Exhibit 11
Michigan Tax Base, 2001-2002*

| <u>Business Sector</u> | <u>Number of Firms</u> | <u>Total Tax Base</u> | <u>Michigan Tax Base (MTB)</u> | <u>MTB as a Percent of Total Tax Base</u> |
|------------------------------------|----------------------------|---------------------------|--|---|
| Agriculture, Forestry, and Fishing | 2,335 | \$4,251,523,430 | \$912,833,430 | 21.47 % |
| Mining | 501 | 17,793,737,768 | 367,396,217 | 2.06 |
| Construction | 15,835 | 25,372,263,884 | 9,597,529,290 | 37.83 |
| Manufacturing | 14,986 | 569,551,793,089 | 36,288,900,591 | 6.37 |
| Other Durable Manufacturers | 5,898 | 181,532,136,721 | 8,897,039,371 | 4.90 |
| Non-Durable Manufacturers | 3,488 | 206,816,825,372 | 9,802,527,838 | 4.74 |
| Primary Metals | 562 | 14,102,999,331 | 1,606,382,408 | 11.39 |
| Fabricated Metals | 2,222 | 24,856,097,673 | 3,774,211,611 | 15.18 |
| Machinery--Except Electrical | 2,109 | 49,632,606,177 | 3,418,387,032 | 6.89 |
| Transportation Equipment | 707 | 92,611,127,815 | 8,790,352,330 | 9.49 |
| Transportation | 3,975 | 98,527,992,895 | 3,325,126,491 | 3.37 |
| Communications and Utilities | 1,515 | 47,086,955,803 | 6,328,621,382 | 13.44 |
| Wholesale Trade | 5,393 | 112,272,054,974 | 6,273,722,459 | 5.59 |
| Retail Trade | 34,365 | 232,051,993,056 | 21,142,494,181 | 9.11 |
| Finance, Ins., and Real Estate | 17,013 | 115,684,472,950 | 11,190,919,540 | 9.67 |
| Services | 45,369 | 392,708,666,523 | 41,253,828,346 | 10.50 |
| Not Elsewhere Classified/Misc. | <u>9,172</u> | <u>93,723,810,474</u> | <u>5,488,334,530</u> | 5.86 |
| All Businesses | 150,459 | \$1,709,025,264,846 | \$142,169,706,457 | 8.32 % |

* Most gross receipts short-method filers do not report these statistics. Thus, figures are understated.

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 12
Components of the Michigan Tax Base, 2001-2002*

| Business Sector | Total Apportioned Compensation | % of Column Total | % of Row Total | Total Apportioned Business Income | % of Column Total | % of Row Total | Total Apportioned Additions | % of Column Total | % of Row Total | Total Apportioned Subtractions** | % of Column Total | % of Row Total | Apportioned Tax Base Total | % of Column Total |
|-------------------------|---------------------------------------|--------------------------|-----------------------|--|--------------------------|-----------------------|------------------------------------|--------------------------|-----------------------|---|--------------------------|-----------------------|-----------------------------------|--------------------------|
| Ag., For., and Fishing | \$656,114,367 | 0.62 | 71.92 | \$101,419,325 | 2.20 | 11.12 | \$170,178,135 | 0.32 | 18.65 | \$15,392,211 | 0.07 | (1.69) | \$912,319,617 | 0.64 |
| Mining | 273,263,568 | 0.26 | 74.45 | (80,424,777) | (1.75) | (21.91) | 254,761,533 | 0.48 | 69.41 | 80,565,713 | 0.37 | (21.95) | 367,034,611 | 0.26 |
| Construction | 7,822,403,257 | 7.36 | 81.58 | 794,351,431 | 17.26 | 8.28 | 1,154,136,940 | 2.19 | 12.04 | 182,049,224 | 0.83 | (1.90) | 9,588,842,404 | 6.76 |
| Other Durable Man. | 7,858,886,589 | 7.39 | 88.35 | (574,047,288) | (12.48) | (6.45) | 2,822,998,050 | 5.35 | 31.74 | 1,213,149,136 | 5.55 | (13.64) | 8,894,688,215 | 6.27 |
| Non-Durable Man. | 6,918,269,130 | 6.51 | 70.58 | 657,721,695 | 14.29 | 6.71 | 3,415,249,221 | 6.47 | 34.84 | 1,189,634,419 | 5.44 | (12.14) | 9,801,605,627 | 6.91 |
| Primary Metals | 1,669,828,245 | 1.57 | 103.95 | (569,746,212) | (12.38) | (35.47) | 724,505,628 | 1.37 | 45.10 | 218,205,253 | 1.00 | (13.58) | 1,606,382,408 | 1.13 |
| Fabricated Metals | 3,039,230,497 | 2.86 | 80.53 | (34,169,608) | (0.74) | (0.91) | 875,152,611 | 1.66 | 23.19 | 105,980,799 | 0.49 | (2.81) | 3,774,232,701 | 2.66 |
| Machinery-Exc. Elect. | 2,909,492,898 | 2.74 | 85.12 | (177,543,779) | (3.86) | (5.19) | 835,943,322 | 1.58 | 24.46 | 149,820,082 | 0.69 | (4.38) | 3,418,072,360 | 2.41 |
| Trans. Equipment | 7,031,788,805 | 6.61 | 79.99 | (2,763,452,649) | (60.06) | (31.44) | 7,892,290,545 | 14.95 | 89.78 | 3,370,203,107 | 15.42 | (38.34) | 8,790,423,594 | 6.20 |
| Transportation | 2,411,176,239 | 2.27 | 72.57 | 112,153,901 | 2.44 | 3.38 | 913,039,257 | 1.73 | 27.48 | 113,615,049 | 0.52 | (3.42) | 3,322,754,348 | 2.34 |
| Comm. and Utilities | 3,123,833,041 | 2.94 | 49.36 | (1,568,739,043) | (34.10) | (24.79) | 5,275,447,593 | 10.00 | 83.36 | 502,245,189 | 2.30 | (7.94) | 6,328,296,401 | 4.46 |
| Wholesale Trade | 4,442,914,194 | 4.18 | 70.85 | 561,581,169 | 12.21 | 8.95 | 1,600,005,767 | 3.03 | 25.51 | 333,275,521 | 1.53 | (5.31) | 6,271,225,608 | 4.42 |
| Retail Trade | 16,432,177,595 | 15.46 | 77.74 | 1,728,173,129 | 37.56 | 8.18 | 4,992,768,395 | 9.46 | 23.62 | 2,015,759,338 | 9.22 | (9.54) | 21,137,359,782 | 14.90 |
| Fin., Ins., and R. Est. | 6,358,352,878 | 5.98 | 57.11 | 1,558,036,797 | 33.86 | 13.99 | 8,524,929,817 | 16.15 | 76.57 | 5,308,363,281 | 24.29 | (47.68) | 11,132,956,210 | 7.85 |
| Services | 32,725,051,635 | 30.78 | 79.70 | 2,962,069,841 | 64.38 | 7.21 | 9,977,345,920 | 18.91 | 24.30 | 4,604,658,665 | 21.07 | (11.21) | 41,059,808,730 | 28.95 |
| Not Else Clss./Misc. | <u>2,641,709,332</u> | <u>2.48</u> | 48.61 | <u>1,893,698,420</u> | <u>41.16</u> | 34.85 | <u>3,347,453,173</u> | <u>6.34</u> | 61.60 | <u>2,448,333,566</u> | <u>11.20</u> | (45.05) | <u>5,434,527,359</u> | <u>3.83</u> |
| All Businesses | \$106,314,492,270 | 100.00 | 74.95 | \$4,601,082,353 | 100.00 | 3.24 | \$52,776,205,907 | 100.00 | 37.21 | \$21,851,250,554 | 100.00 | (15.41) | \$141,840,529,976 | 100.00 |

14

* Total apportioned tax base numbers differ slightly from figures in Exhibit 12 due to calculation discrepancies and exclusion of gross receipts short filers. Excludes short form alternate tax filers.
** Subtractions are deducted from the tax base.

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 13
Capital Acquisition Deduction Recapture, 2001-2002

| <u>Business Sector</u> | <u>Number with CAD Recapture</u> | <u>Percent of Firms</u> | <u>Recaptured CAD</u> | <u>Percent of Total</u> |
|------------------------------------|--|---------------------------------|---------------------------|-----------------------------|
| Agriculture, Forestry, and Fishing | 392 | 2.00 % | \$8,756,941 | 0.34 % |
| Mining | 111 | 0.57 | 6,999,371 | 0.27 |
| Construction | 2,278 | 11.64 | 71,879,870 | 2.80 |
| Manufacturers | 3,213 | 16.42 | 558,769,069 | 21.80 |
| Other Durable Manufacturers | 1,093 | 5.59 | 90,321,585 | 3.52 |
| Non-Durable Manufacturers | 795 | 4.06 | 71,050,201 | 2.77 |
| Primary Metals | 132 | 0.67 | 2,801,183 | 0.11 |
| Fabricated Metal | 506 | 2.59 | 45,747,834 | 1.79 |
| Machinery--Except Electrical | 491 | 2.51 | 39,362,631 | 1.54 |
| Transportation Equipment | 196 | 1.00 | 309,485,635 | 12.08 |
| Transportation | 769 | 3.93 | 37,119,010 | 1.45 |
| Communications and Utilities | 250 | 1.28 | 139,726,862 | 5.45 |
| Wholesale Trade | 922 | 4.71 | 48,221,345 | 1.88 |
| Retail Trade | 4,171 | 21.32 | 253,686,478 | 9.90 |
| Finance, Ins., and Real Estate | 1,633 | 8.35 | 640,024,960 | 24.97 |
| Services | 5,183 | 26.49 | 683,138,072 | 26.66 |
| Not Elsewhere Classified/Misc. | <u>641</u> | <u>3.28</u> | <u>114,546,893</u> | <u>4.47</u> |
| All Businesses | 19,563 | 100.00 % | \$2,562,868,871 | 100.00 % |

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 14
Business Loss Deduction, 2001-2002

| <u>Business Sector</u> | <u>Number of Firms Claiming</u> | <u>Total Business Loss Deduction Claimed</u> | <u>Percent Reduction in MTB*</u> |
|-------------------------------------|---|--|--|
| Agriculture, Forestry, and Fishing | 70 | \$10,643,007 | 1.17 % |
| Mining | 41 | 24,621,906 | 6.70 |
| Construction | 364 | 48,607,786 | 0.51 |
| Manufacturing | 413 | 2,113,664,908 | 5.82 |
| Other Durable Manufacturers | 179 | 137,242,963 | 1.54 |
| Non-Durable Manufacturers | 100 | 92,765,668 | 0.95 |
| Primary Metals | 14 | 33,097,140 | 2.06 |
| Fabricated Metals | 42 | 12,266,594 | 0.33 |
| Machinery--Except Electrical | 42 | 17,004,240 | 0.50 |
| Transportation Equipment | 36 | 1,821,288,303 | 20.72 |
| Transportation | 194 | 60,751,823 | 1.83 |
| Communications and Utilities | 144 | 298,622,274 | 4.72 |
| Wholesale Trade | 148 | 26,371,519 | 0.42 |
| Retail Trade | 1,331 | 245,895,872 | 1.16 |
| Finance, Insurance, and Real Estate | 3,744 | 1,831,198,875 | 16.36 |
| Services | 2,599 | 1,907,632,297 | 4.62 |
| Not Elsewhere Classified/Misc. | <u>999</u> | <u>380,589,795</u> | 6.93 |
| All Businesses | 10,047 | \$6,948,600,062 | 4.89 % |

* Percent reduction in the sector's total MTB after CAD adjustments.

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 15
Statutory Exemption, 2001-2002

| <u>Business Sector</u> | <u>Number of Firms Claiming</u> | <u>Total Statutory Exemptions Claimed</u> | <u>Effective Statutory Exemptions</u> | <u>Percent Reduction in MTB From Eff. Statutory Exemptions*</u> |
|-------------------------------------|---|---|---|---|
| Agriculture, Forestry, and Fishing | 1,062 | \$43,128,188 | \$35,880,340 | 3.93 % |
| Mining | 207 | 8,632,999 | 5,007,564 | 1.36 |
| Construction | 6,848 | 273,724,595 | 226,258,727 | 2.36 |
| Manufacturing | 4,653 | 194,101,849 | 166,755,372 | 0.46 |
| Other Durable Manufacturers | 1,814 | 76,595,246 | 64,321,555 | 0.72 |
| Non-Durable Manufacturers | 1,045 | 42,317,912 | 35,694,955 | 0.36 |
| Primary Metals | 185 | 7,932,666 | 7,298,455 | 0.45 |
| Fabricated Metals | 703 | 29,771,235 | 26,770,877 | 0.71 |
| Machinery--Except Electrical | 712 | 29,447,494 | 25,928,908 | 0.76 |
| Transportation Equipment | 194 | 8,037,296 | 6,740,622 | 0.08 |
| Transportation | 1,843 | 76,900,353 | 62,053,009 | 1.87 |
| Communications and Utilities | 528 | 21,426,979 | 14,518,133 | 0.23 |
| Wholesale Trade | 1,733 | 70,565,727 | 54,993,823 | 0.88 |
| Retail Trade | 17,914 | 724,971,748 | 601,920,464 | 2.85 |
| Finance, Insurance, and Real Estate | 5,522 | 227,835,448 | 104,541,609 | 0.93 |
| Services | 14,604 | 590,351,741 | 428,694,954 | 1.04 |
| Not Elsewhere Classified/Misc. | <u>3,007</u> | <u>123,755,480</u> | <u>73,799,319</u> | 1.34 |
| All Businesses | 57,921 | \$2,355,395,107 | \$1,774,423,314 | 1.25 % |

* Percent reduction in the sector's total MTB after CAD adjustments.

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 16
Excess Compensation and Gross Receipts Filing Methods, 2001-2002

| <u>Business Sector</u> | <u>Excess Compensation Reduction</u> | | | <u>Gross Receipts Reduction and Gross Receipts Short Method</u> | | |
|-------------------------------------|---|---|---|---|---|---|
| | <u>Number of Firms Claiming</u> | <u>Percentage of Firms in Sector Claiming</u> | <u>Reduction in SBT Liability</u> | <u>Number of Firms Claiming</u> | <u>Percentage of Firms in Sector Claiming</u> | <u>Reduction in SBT Liability</u> |
| Agriculture, Forestry, and Fishing | 700 | 29.98 % | \$1,632,794 | 279 | 11.95 % | \$1,017,084 |
| Mining | 114 | 22.75 | 484,906 | 56 | 11.18 | \$320,717 |
| Construction | 5,566 | 35.15 | 31,290,279 | 911 | 5.75 | 5,321,257 |
| Manufacturing | 8,507 | 56.77 | 94,682,532 | 1,021 | 6.81 | 11,467,332 |
| Other Durable Manufacturers | 3,337 | 56.58 | 27,995,580 | 377 | 6.39 | 2,507,756 |
| Non-Durable Manufacturers | 1,847 | 52.95 | 20,771,859 | 195 | 5.59 | 5,317,149 |
| Primary Metals | 360 | 64.06 | 6,602,102 | 27 | 4.80 | 233,057 |
| Fabricated Metals | 1,352 | 60.85 | 11,267,180 | 177 | 7.97 | 1,402,079 |
| Machinery--Except Electrical | 1,209 | 57.33 | 11,642,950 | 205 | 9.72 | 1,501,190 |
| Transportation Equipment | 402 | 56.86 | 16,402,861 | 40 | 5.66 | 506,101 |
| Transportation | 1,503 | 37.81 | 7,689,040 | 358 | 9.01 | 5,811,300 |
| Communications and Utilities | 440 | 29.04 | 4,527,823 | 187 | 12.34 | 7,103,080 |
| Wholesale Trade | 2,854 | 52.92 | 14,727,870 | 190 | 3.52 | 2,485,006 |
| Retail Trade | 13,584 | 39.53 | 56,316,741 | 1,073 | 3.12 | 5,042,517 |
| Finance, Insurance, and Real Estate | 1,642 | 9.65 | 11,577,365 | 4,526 | 26.60 | 24,502,698 |
| Services | 15,194 | 33.49 | 89,385,650 | 10,992 | 24.23 | 126,781,594 |
| Not Elsewhere Classified/Misc. | <u>1,682</u> | 18.34 | <u>7,115,156</u> | <u>2,042</u> | 22.26 | <u>15,434,574</u> |
| All Businesses | 51,786 | 34.42 % | \$319,430,156 | 21,635 | 14.38 % | \$205,287,159 |

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 17
Alternate Tax Rate and Straight Percentage Methods, 2001-2002

| Business Sector | Alternate Tax Rate Method | | | Straight Percentage Method | | |
|-------------------------------------|----------------------------------|--------------------------------------|----------------------------|-----------------------------------|--------------------------------------|----------------------------|
| | Number of Firms | Percentage of Firms in Sector | Final Tax Liability | Number of Firms | Percentage of Firms in Sector | Final Tax Liability |
| Agriculture, Forestry, and Fishing | 795 | 34.05 % | \$948,970 | 561 | 24.03 % | \$1,504,992 |
| Mining | 74 | 14.77 | 96,051 | 257 | 51.30 | 3,471,282 |
| Construction | 4,921 | 31.08 | 6,690,373 | 4,437 | 28.02 | 16,307,807 |
| Manufacturing | 2,140 | 14.28 | 2,995,681 | 3,318 | 22.14 | 133,106,831 |
| Other Durable Manufacturers | 761 | 12.90 | 1,016,728 | 1,423 | 24.13 | 23,245,084 |
| Non-Durable Manufacturers | 500 | 14.33 | 706,845 | 946 | 27.12 | 55,894,165 |
| Primary Metals | 69 | 12.28 | 116,385 | 106 | 18.86 | 3,586,526 |
| Fabricated Metals | 349 | 15.71 | 557,311 | 344 | 15.48 | 10,065,684 |
| Machinery--Except Electrical | 390 | 18.49 | 510,624 | 305 | 14.46 | 9,913,247 |
| Transportation Equipment | 71 | 10.04 | 87,788 | 194 | 27.44 | 30,402,125 |
| Transportation | 770 | 19.37 | 845,248 | 1,344 | 33.81 | 5,460,841 |
| Communications and Utilities | 192 | 12.67 | 262,960 | 696 | 45.94 | 77,135,354 |
| Wholesale Trade | 620 | 11.50 | 917,525 | 1,729 | 32.06 | 33,995,902 |
| Retail Trade | 9,247 | 26.91 | 10,844,734 | 10,461 | 30.44 | 73,776,186 |
| Finance, Insurance, and Real Estate | 2,100 | 12.34 | 3,008,735 | 8,745 | 51.40 | 58,493,003 |
| Services | 8,415 | 18.55 | 10,841,285 | 10,768 | 23.73 | 58,190,573 |
| Not Elsewhere Classified/Misc. | <u>1,038</u> | 11.32 | <u>1,371,011</u> | <u>4,410</u> | 48.08 | <u>23,393,965</u> |
| All Businesses | 30,312 | 20.15 % | \$38,822,573 | 46,726 | 31.06 % | \$484,836,736 |

Alternate filers include simplified filers.

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 18
Claimed Investment Tax Credit
2001-2002

| <u>Business Sector</u> | <u>Number</u> <u>Claiming</u> <u>ITC</u> | <u>Percent</u> <u>of Firms</u> <u>Claiming</u> <u>ITC</u> | <u>Claimed</u> <u>ITC</u> | <u>Percent</u> <u>of Claimed</u> <u>ITC</u> |
|------------------------------------|---|--|--------------------------------------|--|
| Agriculture, Forestry, and Fishing | 1,287 | 2.25 % | \$1,427,686 | 0.56 % |
| Mining | 234 | 0.41 | \$1,193,678 | 0.47 |
| Construction | 7,583 | 13.24 | \$5,991,607 | 2.35 |
| Manufacturers | 6,224 | 10.86 | 90,844,692 | 35.69 |
| Other Durable Manufacturers | 2,177 | 3.80 | 6,433,267 | 2.53 |
| Non-Durable Manufacturers | 1,439 | 2.51 | 8,994,853 | 3.53 |
| Primary Metals | 247 | 0.43 | 1,004,064 | 0.39 |
| Fabricated Metal | 1,063 | 1.86 | 3,268,092 | 1.28 |
| Machinery--Except Electrical | 994 | 1.73 | 1,769,497 | 0.70 |
| Transportation Equipment | 304 | 0.53 | 69,374,919 | 27.25 |
| Transportation | 1,582 | 2.76 | 2,923,963 | 1.15 |
| Communications and Utilities | 616 | 1.08 | 13,592,923 | 5.34 |
| Wholesale Trade | 2,009 | 3.51 | 4,598,041 | 1.81 |
| Retail Trade | 15,544 | 27.13 | 18,683,248 | 7.34 |
| Finance, Ins., and Real Estate | 4,444 | 7.76 | 61,219,881 | 24.05 |
| Services | 15,841 | 27.65 | 45,849,915 | 18.01 |
| Not Elsewhere Classified/Misc. | <u>1,929</u> | <u>3.37</u> | <u>8,246,518</u> | <u>3.24</u> |
| All Businesses | 57,293 | 100.00 % | \$254,572,152 | 100.00 % |

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 19
Effective Investment Tax Credit
2001-2002

| <u>Business Sector</u> | <u>Number Non-Zero Effective ITC</u> | <u>Percent of Firms Effective ITC</u> | <u>Effective ITC</u> | <u>Percent of Effective ITC</u> |
|------------------------------------|---|--|---------------------------------|--|
| Agriculture, Forestry, and Fishing | 1,179 | 2.29 % | \$1,053,432 | 0.65 % |
| Mining | 181 | 0.35 | \$1,380,748 | 0.85 |
| Construction | 7,179 | 13.95 | \$4,981,035 | 3.07 |
| Manufacturers | 5,916 | 11.50 | 56,928,511 | 35.12 |
| Other Durable Manufacturers | 2,018 | 3.92 | 5,216,917 | 3.22 |
| Non-Durable Manufacturers | 1,382 | 2.69 | 8,416,353 | 5.19 |
| Primary Metals | 234 | 0.45 | 889,340 | 0.55 |
| Fabricated Metal | 1,035 | 2.01 | 2,607,838 | 1.61 |
| Machinery--Except Electrical | 963 | 1.87 | 1,642,519 | 1.01 |
| Transportation Equipment | 284 | 0.55 | 38,155,544 | 23.54 |
| Transportation | 1,458 | 2.83 | 2,471,771 | 1.52 |
| Communications and Utilities | 509 | 0.99 | 11,596,440 | 7.15 |
| Wholesale Trade | 1,880 | 3.65 | 4,307,377 | 2.66 |
| Retail Trade | 14,333 | 27.86 | 15,258,428 | 9.41 |
| Finance, Ins., and Real Estate | 3,193 | 6.21 | 36,020,645 | 22.22 |
| Services | 14,082 | 27.37 | 23,999,747 | 14.81 |
| Not Elsewhere Classified/Misc. | <u>1,542</u> | <u>3.00</u> | <u>4,097,299</u> | <u>2.53</u> |
| All Businesses | 51,452 | 100.00 % | \$162,095,433 | 100.00 % |

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 20
SBT Small Business Credit:
Illustrative Examples

| <u>No.</u> | <u>Michigan Tax Base</u> | <u>Base After Reductions</u> | <u>Adjusted Business Income</u> | <u>Tax Before Credit</u> | <u>Standard Small Business Credit</u> | <u>Alternate Credit</u> | <u>Tax After Credit</u> | <u>Tax as a % of Adjusted Business Income</u> |
|------------|--------------------------|------------------------------|---------------------------------|--------------------------|---------------------------------------|-------------------------|-------------------------|---|
| 1 | \$100,000 | \$30,000 | \$50,000 | \$600 | \$0 | \$0 | \$600 | 1.20 % |
| 2 | 100,000 | 50,000 | 50,000 | 1,000 | 0 | 0 | 1,000 | 2.00 |
| 3 | 100,000 | 40,000 | 30,000 | 800 | 267 | 200 | 533 | 1.78 |
| 4 | 1,000,000 | 700,000 | 50,000 | 14,000 | 12,444 | 13,000 | 1,000 | 2.00 |
| 5 | 1,000,000 | 300,000 | 200,000 | 6,000 | 3,333 | 2,000 | 2,667 | 1.33 |
| 6 | 1,000,000 | 500,000 | 450,000 | 10,000 | 0 | 1,000 | 9,000 | 2.00 |
| 7 | 2,000,000 | 700,000 | 50,000 | 14,000 | 13,222 | 13,000 | 778 | 1.56 |
| 8 | 2,000,000 | 1,000,000 | 400,000 | 20,000 | 11,111 | 12,000 | 8,000 | 2.00 |
| 9 | 3,000,000 | 700,000 | 100,000 | 14,000 | 12,963 | 12,000 | 1,037 | 1.04 |
| 10 | 3,000,000 | 1,500,000 | 200,000 | 30,000 | 25,556 | 26,000 | 4,000 | 2.00 |

Note: Taxpayers who qualify for the small business credit may instead opt to file using the alternate tax rate method. The alternate tax rate is equal to 2 percent of adjusted business income.

All the above examples assume that taxpayer's gross receipts are below \$9 million and that the firm does not receive an investment tax credit (ITC).

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 21
Other Major Tax Credits, 2001-2002

| <u>Business Sector</u> | <u>Small Business Credit/ Alternate Tax Rate</u> | | <u>Unincorporated/ S Corp. Credit</u> | | <u>Public Contributions/ Public Utility Credits</u> | |
|-------------------------------------|--|------------------|---|------------------|---|---------------|
| | <u>Number of Firms</u> | <u>Amount</u> | <u>Number of Firms</u> | <u>Amount</u> | <u>Number of Firms</u> | <u>Amount</u> |
| Agriculture, Forestry, and Fishing | 1,260 | \$3,271,239 | 1,145 | \$695,928 | 17 | \$13,267 |
| Mining | 131 | 614,637 | 150 | 285,648 | n.a. | n.a. |
| Construction | 7,638 | 21,097,859 | 7,371 | 7,665,235 | 147 | 203,501 |
| Manufacturing | 4,123 | 18,557,909 | 4,604 | 13,742,696 | 289 | 496,335 |
| Other Durable Manufacturers | 1,461 | 6,459,329 | 1,804 | 3,695,689 | 113 | 199,222 |
| Non-Durable Manufacturers | 899 | 3,392,143 | 1,088 | 4,131,689 | 92 | 167,134 |
| Primary Metals | 157 | 891,480 | 147 | 558,570 | n.a. | n.a. |
| Fabricated Metals | 728 | 3,532,805 | 759 | 2,493,077 | 41 | 67,904 |
| Machinery--Except Electrical | 746 | 3,640,700 | 618 | 1,498,379 | 43 | 62,075 |
| Transportation Equipment | 132 | 641,452 | 188 | 1,365,292 | n.a. | n.a. |
| Transportation | 1,456 | 5,564,856 | 1,344 | 1,686,135 | 26 | 29,283 |
| Communications and Utilities | 339 | 1,339,930 | 412 | 2,058,720 | 57 | 1,663,788 |
| Wholesale Trade | 1,175 | 3,161,405 | 1,715 | 3,349,797 | 84 | 141,209 |
| Retail Trade | 16,261 | 35,151,349 | 14,199 | 13,477,559 | 315 | 277,687 |
| Finance, Insurance, and Real Estate | 3,481 | 12,151,169 | 6,874 | 5,969,508 | 155 | 204,403 |
| Services | 13,989 | 55,086,785 | 18,258 | 25,244,826 | 432 | 399,914 |
| Not Elsewhere Classified/Misc. | <u>1,722</u> | <u>4,224,767</u> | <u>4,159</u> | <u>4,587,912</u> | <u>20</u> | <u>10,060</u> |
| All Businesses | 51,575 | \$160,221,905 | 60,231 | \$78,763,964 | 1,581 | \$3,520,527 |

Note: There were 9,876 simplified filers who used the alternate method. Since they do not report their tax base, but only their calculated liability before credits, their alternate credit was estimated using the average reduction on the calculated liability before credits observed in the non-simplified filers who used the alternate method.

Per Rule 205.1003, "n.a." was used to protect the confidentiality of firms in this business classification. These firms were included in the column total.

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 22
Single Business Tax by Type of Firm, 2001-2002

| <u>Business Sector</u> | <u>Individuals</u> | | <u>S Corporations</u> | | <u>Corporations</u> | | <u>Other*</u> | |
|--------------------------------|------------------------|------------------|------------------------|------------------|------------------------|------------------|------------------------|------------------|
| | <u>Number of Firms</u> | <u>Liability</u> | <u>Number of Firms</u> | <u>Liability</u> | <u>Number of Firms</u> | <u>Liability</u> | <u>Number of Firms</u> | <u>Liability</u> |
| Ag., For., and Fishing | 380 | \$840,492 | 962 | \$3,317,376 | 660 | \$3,919,262 | 333 | \$1,858,994 |
| Mining | 41 | 75,274 | 151 | 766,166 | 200 | 3,727,386 | 109 | 1,381,903 |
| Construction | 2,253 | 2,995,708 | 6,322 | 51,123,106 | 5,931 | 56,467,645 | 1,329 | 6,388,588 |
| Other Durable Man. | 156 | 143,412 | 1,797 | 21,075,626 | 3,518 | 106,670,542 | 427 | 5,898,754 |
| Non-Durable Man. | 102 | 168,057 | 1,063 | 17,929,667 | 2,100 | 120,737,537 | 223 | 14,500,800 |
| Primary Metals | n.a. | n.a. | 161 | 2,953,030 | 362 | 18,578,732 | 31 | 977,816 |
| Fabricated Metals | 26 | 34,661 | 818 | 16,113,833 | 1,298 | 34,546,443 | 80 | 1,322,549 |
| Machinery--Exc. Electrical | 37 | 55,240 | 671 | 8,718,022 | 1,300 | 37,533,339 | 101 | 1,298,036 |
| Transportation Equipment | n.a. | n.a. | 176 | 4,408,064 | 465 | 78,520,387 | 56 | 4,410,485 |
| Transportation | 317 | 296,224 | 1,428 | 7,086,971 | 1,824 | 29,865,003 | 406 | 5,669,166 |
| Communications and Utilities | 44 | 83,300 | 418 | 2,792,380 | 834 | 89,428,001 | 219 | 13,200,558 |
| Wholesale Trade | 188 | 314,230 | 1,708 | 19,486,123 | 3,183 | 71,504,689 | 314 | 4,736,994 |
| Retail Trade | 3,670 | 3,556,896 | 15,035 | 81,376,824 | 12,986 | 185,784,645 | 2,674 | 18,460,196 |
| Finance, Ins., and Real Estate | 1,849 | 5,203,531 | 3,095 | 16,598,461 | 3,080 | 82,082,847 | 8,989 | 27,523,981 |
| Services | 5,039 | 15,879,937 | 14,183 | 95,998,226 | 14,684 | 247,910,614 | 11,463 | 134,325,390 |
| Not Elsewhere Class./Misc. | 1,245 | 2,837,093 | 2,220 | 12,524,714 | 2,553 | 42,114,074 | 3,154 | 19,070,650 |
| All Businesses | 15,365 | \$32,505,446 | 50,208 | \$362,268,589 | 54,978 | \$1,209,391,146 | 29,908 | \$261,024,860 |

* Includes fiduciary companies, professional corporations, partnerships and limited liability companies.

Per Rule 205.1003, "n.a." was used to protect the confidentiality of firms in this business classification. These firms were included in the column total.

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 23
Ratio of Tax Liability to Michigan Tax Base, 2001-2002

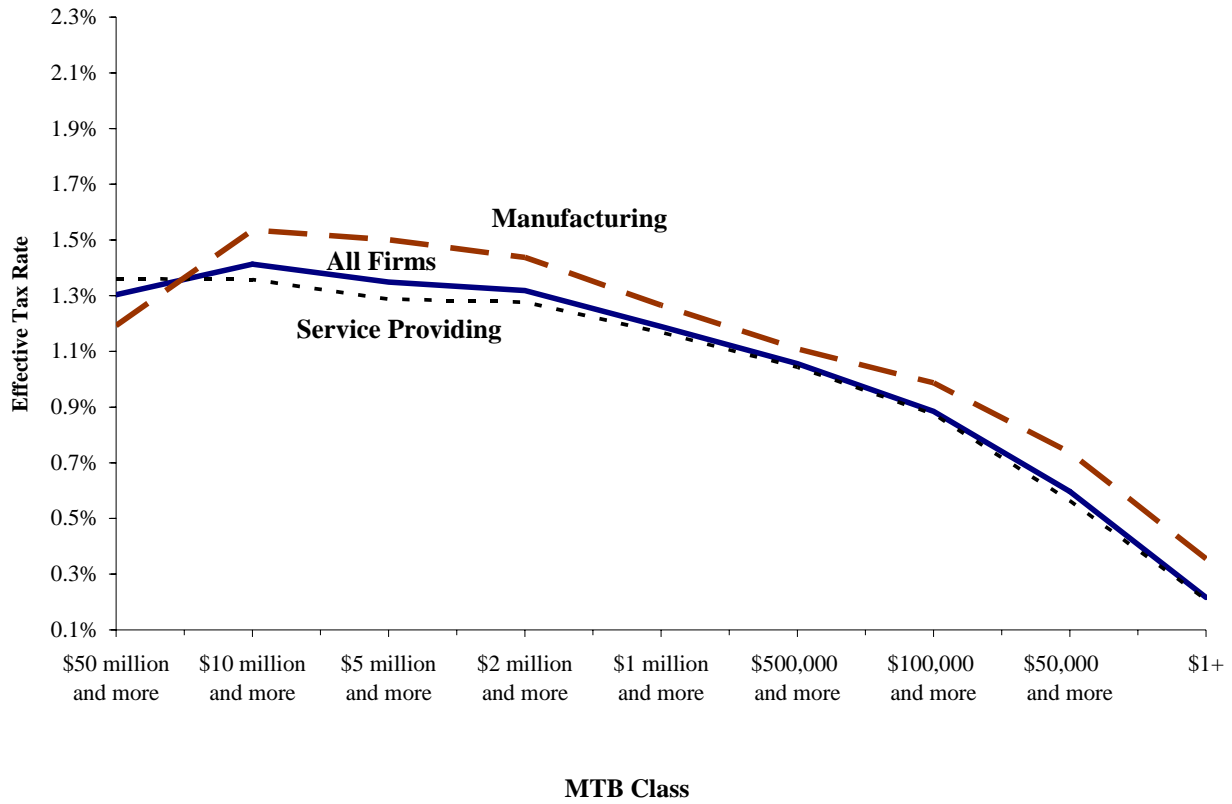
| <u>Business Sector</u> | <u>All Businesses</u> | <u>\$50,000,000- and more</u> | <u>\$10,000,000- \$49,999,999</u> | <u>\$5,000,000- \$9,999,999</u> | <u>\$2,000,000- \$4,999,999</u> | <u>\$1,000,000- \$1,999,999</u> | <u>\$500,000- \$999,999</u> | <u>\$100,000- \$499,999</u> | <u>\$50,000- \$99,999</u> | <u>\$1- \$49,999</u> |
|--------------------------------|-----------------------|-----------------------------------|---------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|---------------------------------|---------------------------------|-------------------------------|--------------------------|
| Agriculture, For., and Fishing | 1.06% | n.a. | n.a. | n.a. | 1.33% | 1.11% | 1.01% | 0.77% | 0.38% | 0.09% |
| Mining | 1.24% | n.a. | n.a. | 1.52% | 1.21% | 1.01% | 1.03% | 0.70% | 0.70% | 0.09% |
| Construction | 1.19% | n.a. | 1.38% | 1.39% | 1.29% | 1.17% | 1.06% | 0.85% | 0.62% | 0.13% |
| Other Durable Manufacturers | 1.43% | 1.55% | 1.54% | 1.52% | 1.42% | 1.30% | 1.14% | 1.07% | 0.78% | 0.43% |
| Non-Durable Manufacturers | 1.54% | 1.62% | 1.58% | 1.57% | 1.48% | 1.36% | 1.21% | 1.01% | 0.72% | 0.32% |
| Primary Metals | 1.32% | n.a. | 1.41% | 1.44% | 1.49% | 1.17% | 0.86% | 0.92% | 0.66% | 0.36% |
| Fabricated Metals | 1.37% | n.a. | 1.55% | 1.45% | 1.37% | 1.22% | 1.04% | 0.87% | 0.60% | 0.36% |
| Machinery--Exc. Electrical | 1.38% | n.a. | 1.44% | 1.47% | 1.41% | 1.14% | 1.03% | 0.83% | 0.76% | 0.18% |
| Transportation Equipment | 0.99% | 0.79% | 1.50% | 1.42% | 1.53% | 1.26% | 1.13% | 0.96% | 0.66% | 0.27% |
| Transportation | 1.25% | n.a. | 1.44% | 1.42% | 1.35% | 1.11% | 0.98% | 0.76% | 0.66% | 0.35% |
| Communications and Utilities | 1.52% | 1.64% | 1.39% | 1.36% | 1.30% | 1.07% | 1.04% | 0.90% | 0.81% | 0.51% |
| Wholesale Trade | 1.50% | 1.62% | 1.52% | 1.64% | 1.52% | 1.51% | 1.29% | 1.19% | 0.88% | 0.42% |
| Retail Trade | 1.33% | 1.63% | 1.53% | 1.50% | 1.45% | 1.29% | 1.06% | 0.79% | 0.50% | 0.12% |
| Finance, Ins.,and Real Estate | 1.04% | 1.09% | 1.27% | 1.23% | 1.11% | 0.94% | 0.84% | 0.76% | 0.55% | 0.23% |
| Services | 1.13% | 1.11% | 1.27% | 1.12% | 1.18% | 1.12% | 1.07% | 0.94% | 0.61% | 0.26% |
| Not Elsewhere Classified/Misc. | 1.27% | n.a. | 1.34% | 1.28% | 1.35% | 1.23% | 1.10% | 0.99% | 0.87% | 0.37% |
| All Businesses | 1.25% | 1.30% | 1.41% | 1.35% | 1.32% | 1.19% | 1.06% | 0.89% | 0.60% | 0.22% |

Notes: Does not include gross receipts short method filers or simplified return filers.

Per Rule 205.1003, "n.a." was used to protect the confidentiality of firms in this MTB category. These firms were included in column and row averages.

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

**Exhibit 24
Effective Rates, 2001-2002**



Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 25
Tax Adjustments as a Percent of Michigan Tax Base, 2001-2002

| <u>Michigan Tax Base Class</u> | <u>Net Capital Acquisition Deduction*</u> | <u>Business Loss Deduction</u> | <u>Statutory Exemption*</u> | <u>Gross Receipts Reduction</u> | <u>Excess Compensation Reduction</u> | <u>Investment Tax Credit**</u> | <u>Small Business Credit**</u> | <u>Other Credits***</u> |
|--------------------------------|---|--|---------------------------------|---|--|--|--|-----------------------------|
| \$100,000,000 - and over | -3.72 % | n.a. | 0.00 % | 6.92 % | 5.93 % | 14.05 % | 0.00 % | 1.81 % |
| \$50,000,000 - \$99,999,999 | -0.96 | n.a. | 0.01 | 7.88 | 9.24 | 7.02 | 0.00 | 3.16 |
| \$10,000,000 - \$49,999,999 | -0.54 | 2.63 | 0.02 | 7.30 | 12.13 | 3.58 | 0.00 | 3.87 |
| \$5,000,000 - \$9,999,999 | -0.66 | 2.11 | 0.09 | 7.27 | 11.82 | 2.69 | 2.92 | 3.99 |
| \$2,000,000 - \$4,999,999 | -0.81 | 2.80 | 0.19 | 7.23 | 13.48 | 2.37 | 3.74 | 3.87 |
| \$1,000,000 - \$1,999,999 | -0.89 | 3.67 | 0.44 | 6.84 | 13.98 | 2.64 | 8.41 | 3.62 |
| \$500,000 - \$999,999 | -1.31 | 4.57 | 0.98 | 6.98 | 12.48 | 3.47 | 13.40 | 3.43 |
| \$100,000 - \$499,999 | -1.60 | 5.54 | 5.50 | 5.81 | 8.82 | 5.91 | 17.44 | 3.52 |
| \$50,000 - \$99,999 | -4.48 | 8.41 | 37.21 | 1.24 | 6.85 | 7.15 | 10.23 | 2.95 |
| \$1 - \$49,999 | -14.65 | 13.43 | 75.06 | 1.16 | 2.67 | -0.03 | 11.12 | 1.32 |
| Total | -1.73 % | 4.98 % | 1.25 % | 7.22 % | 11.23 % | 5.70 % | 5.63 % | 3.56 % |

* Effective deductions and exemptions only.

** Claimed credits were divided by the tax rate (.020) to allow for a comparison to other deductions, exemptions and reductions.

*** Other credits include unincorporated, public utility, community foundation, college, homeless, and other credits.

Per Rule 205.1003, "n.a." was used to protect the confidentiality of firms in this MTB category.

These firms were included in column average.

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 26
SBT Liability Statistics, 2001-2002

| Business Sector | All Businesses | | Michigan-Only Businesses | |
|------------------------------------|--|---|--|---|
| | Liability as a % of Apportioned Compensation* | Liability as a % of Apportioned Gross Receipts** | Liability as a % of Compensation* | Liability as a % of Gross Receipts** |
| Agriculture, Forestry, and Fishing | 1.44 % | 0.38 % | 1.26 % | 0.34 % |
| Mining | 2.04 | 0.20 | 1.74 | 0.37 |
| Construction | 1.44 | 0.32 | 1.39 | 0.32 |
| Manufacturing | 1.67 | 0.33 | 1.33 | 0.38 |
| Other Durable Manufacturers | 1.69 | 0.40 | 1.33 | 0.37 |
| Non-Durable Manufacturers | 2.19 | 0.39 | 1.42 | 0.37 |
| Primary Metals | 1.34 | 0.27 | 1.03 | 0.24 |
| Fabricated Metals | 1.70 | 0.46 | 1.35 | 0.44 |
| Machinery, Except Electrical | 1.62 | 0.44 | 1.27 | 0.44 |
| Transportation Equipment | 1.24 | 0.18 | 1.30 | 0.34 |
| Transportation | 1.60 | 0.42 | 1.15 | 0.25 |
| Communications and Utilities | 3.12 | 0.50 | 2.63 | 0.47 |
| Wholesale Trade | 2.14 | 0.20 | 1.68 | 0.19 |
| Retail Trade | 1.70 | 0.20 | 1.45 | 0.18 |
| Finance, Ins., and Real Estate | 1.66 | 0.17 | 2.02 | 0.28 |
| Services | 1.41 | 0.40 | 1.30 | 0.48 |
| Not Elsewhere Classified/Misc. | 1.88 | 0.26 | 1.70 | 0.23 |
| All Businesses | 1.64 % | 0.29 % | 1.43 % | 0.30 % |

* Only firms that reported compensation or apportioned compensation greater than zero.

** Only firms that reported gross receipts or apportioned gross receipts greater than zero.

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 27
Comparing SBT With a Corporate Income Tax
(Corporations Only *)

| <u>Year **</u> | <u>Total Liability at 1.9% Rate</u> | <u>Total Taxable Income ***</u> | <u>CIT Rate</u> |
|----------------|---|-------------------------------------|---------------------|
| 1977 | \$647,577,792 | \$12,168,649,001 | 5.32 % |
| 1978 | 700,856,150 | 11,977,996,752 | 5.85 |
| 1979 | 730,562,728 | 12,880,516,215 | 5.67 |
| 1980 | 661,271,388 | 11,989,232,307 | 5.52 |
| 1981 | 731,729,229 | 12,648,764,583 | 5.78 |
| 1982 | 719,181,057 | 11,109,790,807 | 6.47 |
| 1983 | 845,932,967 | 12,814,803,591 | 6.60 |
| 1984 | 1,004,004,863 | 18,848,672,953 | 5.33 |
| 1985 | 1,066,578,413 | 18,817,638,411 | 5.67 |
| 1986 | n.a. | n.a. | n.a. |
| 1987 | 1,117,922,999 | 19,438,638,420 | 5.75 |
| 1988 | 1,171,743,826 | 19,408,109,349 | 6.04 |
| 1989 | 1,130,192,778 | 15,722,391,974 | 7.19 |
| 1990 | 1,079,489,135 | 13,576,515,600 | 7.95 |
| 1991 | 1,045,750,823 | 10,315,374,744 | 10.14 |
| 1992 | 1,325,205,302 | 10,446,537,766 | 12.69 |
| 1993 | 1,228,941,591 | 11,696,248,261 | 10.51 |
| 1994 | 1,401,418,102 | 17,162,481,983 | 8.17 |
| 1995 | 1,339,599,197 | 16,790,720,391 | 7.98 |
| 1996 | 1,342,092,834 | 17,251,073,219 | 7.78 |
| 1997 | 1,472,360,306 | 17,963,112,428 | 8.20 |
| 1998 | 1,505,380,573 | 19,188,102,281 | 7.85 |
| 1999 | 1,391,886,296 | 17,908,093,758 | 7.77 |
| 2000 | 1,365,382,193 | 17,939,140,819 | 7.61 |
| 2001 | 1,211,112,897 | 15,992,712,879 | 7.57 |
| Average | \$1,093,173,893 | \$15,168,971,604 | 7.21 % |

* Gross receipts filers that provided business income, compensation, total additions, and total subtractions equal to zero were assumed to not have reported their taxable income; therefore, they were excluded from the analysis.

** Data from 1977 to 1994 refer to calendar years.
Data from 1995 to present refer to tax years.

*** Taxable Income was calculated as Business Income times Apportionment factor, setting negative income to \$0. Also, only Professional Corporations and Other Corporations were used to calculate the Taxable Income. **Does not include corporations with negative business income.**

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 28
States With a Corporate Income Tax:
TY 2005 Highest Marginal Rate for Each State*

| <u>State</u> | <u>Rate</u> | <u>State</u> | <u>Rate</u> |
|---------------|--------------------|----------------|---------------------|
| Alabama | 6.5 % | Mississippi | 5.0 % |
| Alaska | 9.4 | Missouri | 6.25 |
| Arizona | 6.968 | Montana | 6.75 ⁽⁵⁾ |
| Arkansas | 6.5 | Nebraska | 7.81 |
| California | 8.84 | New Hampshire | 8.5 ⁽⁶⁾ |
| Colorado | 4.63 | New Jersey | 9.0 |
| Connecticut | 7.5 | New Mexico | 7.6 |
| Delaware | 8.7 | New York | 7.5 |
| Florida | 5.5 | North Carolina | 6.9 |
| Georgia | 6.0 | North Dakota | 7.0 |
| Hawaii | 6.4 | Ohio | 8.5 |
| Idaho | 7.6 | Oklahoma | 6.0 |
| Illinois | 7.3 ⁽¹⁾ | Oregon | 6.6 |
| Indiana | 8.5 | Pennsylvania | 9.99 |
| Iowa | 12.0 | Rhode Island | 9.0 |
| Kansas | 4.0 ⁽²⁾ | South Carolina | 5.0 |
| Kentucky | 7.0 | Tennessee | 6.5 |
| Louisiana | 8.0 | Utah | 5.0 |
| Maine | 8.93 | Vermont | 9.75 |
| Maryland | 7.0 | Virginia | 6.0 |
| Massachusetts | 9.5 ⁽³⁾ | West Virginia | 9.0 |
| Minnesota | 9.8 ⁽⁴⁾ | Wisconsin | 7.9 |

* As of January 1, 2005

- ⁽¹⁾ Includes a 2.5 percent personal property replacement tax.
- ⁽²⁾ Plus a surtax of 3.35 percent taxable income in excess of \$50,000.
- ⁽³⁾ Includes a 14 percent surtax, as does the following: an additional tax of \$7.00 per \$1,000 on taxable tangible property (or net worth allocable to MA, for intangible property corporations).
- ⁽⁴⁾ Plus a 5.8 percent tax on any Alternative Minimum Taxable Income over the base tax.
- ⁽⁵⁾ A 7 percent tax on taxpayers using water's edge combination.
- ⁽⁶⁾ Plus a 0.50 percent tax on the enterprise base (total compensation, interest, and dividends paid).

Source: RIA Checkpoint and Federation of Tax Administrators (for select notes).

Exhibit 29
State and Local Business Taxes
As a Percent of Gross State Product (GSP) and Personal Income
COST Study, FY 2005

| <u>State</u> | <u>State and Local Business Taxes (billions)</u> | <u>Effective Tax Rate (Percent of Private Sector GSP)</u> | <u>Rank</u> | <u>Personal Income (billions)</u> | <u>State and Local Business Taxes as a Percent of Personal Income</u> | <u>Rank</u> |
|-----------------|--|---|-------------|---|---|-------------|
| Alabama | 4.9 | 4.2% | 40 | 131.1 | 3.7% | 49 |
| Alaska | 2.5 | 9.3% | 2 | 23.0 | 10.9% | 2 |
| Arizona | 8.6 | 4.9% | 23 | 171.9 | 5.0% | 21 |
| Arkansas | 3.1 | 4.3% | 36 | 72.9 | 4.3% | 40 |
| California | 66.0 | 4.8% | 25 | 1,300.6 | 5.1% | 18 |
| Colorado | 7.2 | 4.1% | 41 | 171.7 | 4.2% | 42 |
| Connecticut | 6.6 | 3.9% | 44 | 163.6 | 4.0% | 45 |
| Delaware | 1.8 | 3.7% | 48 | 30.5 | 5.9% | 8 |
| Florida | 28.6 | 5.4% | 15 | 569.0 | 5.0% | 20 |
| Georgia | 12.0 | 4.0% | 42 | 274.1 | 4.4% | 36 |
| Hawaii | 2.1 | 5.4% | 15 | 42.8 | 4.9% | 24 |
| Idaho | 1.6 | 4.3% | 36 | 38.9 | 4.1% | 43 |
| Illinois | 25.2 | 5.3% | 19 | 450.4 | 5.6% | 11 |
| Indiana | 9.3 | 4.5% | 30 | 192.0 | 4.8% | 27 |
| Iowa | 4.2 | 4.3% | 36 | 93.8 | 4.5% | 34 |
| Kansas | 4.6 | 5.5% | 12 | 87.7 | 5.2% | 17 |
| Kentucky | 5.1 | 4.4% | 33 | 116.0 | 4.4% | 35 |
| Louisiana | 8.2 | 6.2% | 6 | 126.3 | 6.5% | 4 |
| Maine | 2.2 | 5.9% | 7 | 40.5 | 5.4% | 13 |
| Maryland | 9.0 | 4.7% | 27 | 227.4 | 4.0% | 46 |
| Massachusetts | 11.8 | 4.0% | 42 | 277.1 | 4.3% | 39 |
| Michigan | 14.2 | 4.3% | 36 | 332.5 | 4.3% | 38 |
| Minnesota | 9.9 | 4.9% | 23 | 188.7 | 5.2% | 16 |
| Mississippi | 3.7 | 5.8% | 8 | 72.9 | 5.1% | 19 |
| Missouri | 7.1 | 3.9% | 44 | 180.4 | 3.9% | 47 |
| Montana | 1.2 | 5.4% | 15 | 26.5 | 4.5% | 32 |
| Nebraska | 3.1 | 5.4% | 15 | 57.9 | 5.4% | 15 |
| Nevada | 4.1 | 4.6% | 29 | 83.1 | 4.9% | 23 |
| New Hampshire | 2.4 | 5.1% | 22 | 49.1 | 4.9% | 25 |
| New Jersey | 16.7 | 4.5% | 30 | 372.7 | 4.5% | 33 |
| New Mexico | 3.1 | 6.3% | 5 | 51.6 | 6.0% | 7 |
| New York | 45.6 | 5.7% | 10 | 749.5 | 6.1% | 5 |
| North Carolina | 10.9 | 3.7% | 48 | 258.7 | 4.2% | 41 |
| North Dakota | 1.3 | 6.6% | 3 | 19.4 | 6.7% | 3 |
| Ohio | 17.6 | 4.7% | 27 | 365.3 | 4.8% | 28 |
| Oklahoma | 4.9 | 5.5% | 12 | 101.1 | 4.8% | 26 |
| Oregon | 4.3 | 3.8% | 47 | 113.2 | 3.8% | 48 |
| Pennsylvania | 20.3 | 4.8% | 25 | 424.5 | 4.8% | 29 |
| Rhode Island | 1.9 | 5.2% | 20 | 38.0 | 5.0% | 22 |
| South Carolina | 5.1 | 4.4% | 33 | 117.6 | 4.3% | 37 |
| South Dakota | 1.3 | 5.2% | 20 | 23.9 | 5.4% | 12 |
| Tennessee | 8.5 | 4.5% | 30 | 181.1 | 4.7% | 30 |
| Texas | 43.6 | 5.6% | 11 | 725.2 | 6.0% | 6 |
| Utah | 2.7 | 3.9% | 44 | 66.7 | 4.0% | 44 |
| Vermont | 1.1 | 5.5% | 12 | 20.3 | 5.4% | 14 |
| Virginia | 10.1 | 3.7% | 48 | 281.0 | 3.6% | 50 |
| Washington | 12.9 | 5.8% | 8 | 223.3 | 5.8% | 9 |
| West Virginia | 2.7 | 6.6% | 3 | 48.2 | 5.6% | 10 |
| Wisconsin | 8.4 | 4.4% | 33 | 181.9 | 4.6% | 31 |
| Wyoming | <u>2.0</u> | <u>9.6%</u> | 1 | <u>18.1</u> | <u>11.1%</u> | 1 |
| United States | \$497.4 | 4.8% | | \$9,973.9 | 5.0% | |

Source: Ernst and Young.