

The New and Expanded MBT Small Business Credit

NEW AND EXPANDED SMALL BUSINESS CREDIT

The MBTA contains a credit very similar to the Small Business Credit³ and alternate tax contained in the Single Business Tax. The credit is designed to allow eligible businesses to pay a tax on income at a 1.8% rate.⁴

To qualify for the special tax treatment, the business must survive three disqualifiers. Like the Single Business Tax, the three disqualifiers are gross receipts, adjusted business income and individual income. However, the disqualification amounts have been significantly increased.

The Small Business Credit is available to any taxpayer with gross receipts that do not exceed \$20,000,000 and with adjusted business income minus the loss adjustment that does not exceed \$1,300,000.⁵ The gross receipts and the adjusted business income disqualifiers will be adjusted annually for inflation using the Detroit consumer price index.

The Small Business Credit is taken after the compensation credit, the investment tax credit and the research and development credit, but before all other credits.⁶

Distributive Share of Adjusted Business Income Disqualifier

An individual, a partnership, a limited liability company, or a subchapter S corporation is disqualified from taking the small business credit if the individual, any one partner of a partnership, any one member of a limited liability company, or any one shareholder of a subchapter S corporation receives more than \$180,000 as a distributive share of the adjusted business income minus the loss adjustment.⁷

Corporation Shareholder and Officer Disqualifier

If the compensation paid to an individual shareholder of a "C" Corporation or officer of a "C" Corporation exceed \$180,000, the "C" Corporation is disqualified from using the small business credit

Or

If the sum of the compensation and directors fees of a shareholder plus the shareholder's percentage share of the "C" Corporation adjusted business income exceeds \$180,000, the "C" Corporation is disqualified from using the small business credit.⁸

Phase Out of the Small Business Credit - Individual

The credit is phased out if the distributive share of adjusted business income for an individual, partner, member, shareholder or officer exceeds \$160,000.⁹

\$160,000 or less		0.0%
\$160,000	\$165,000	20%
\$165,000	\$170,000	40%
\$170,000	\$175,000	60%
\$175,000	\$180,000	80%
\$180,000 or more		100%

Phase Out of the Small Business Credit – Gross Receipts

If gross receipts exceed \$19,000,000, the credit is reduced by a fraction, the numerator of which is the amount of gross receipts over \$19,000,000 and the denominator of which is \$1,000,000. The credit can not exceed 100% of the tax liability.¹⁰

There is no phase out of the adjusted business income disqualifier of \$1,300,000.

The Small Business Credit Calculation

A taxpayer that qualifies for the Small Business Credit is allowed a credit against the MBT equal to the amount by which the tax imposed exceeds 1.8% of adjusted business income.¹¹

Adjusted business income is business income plus the following:

- (i) Compensation and director's fees of active shareholders of a corporation
- (ii) Carry back or carry forward of a net operating loss
- (iii) Capital losses, and
- (iv) Compensation and director's fees of officers of a corporation.¹²

Tax Year Less Than Twelve Months

If the tax year is less than twelve months, the gross receipts disqualifier, the adjusted business income and share of business income disqualifiers shall be prorated.¹³ The amount is multiplied by a fraction, the numerator of which is the number of months in the tax year and the denominator is 12.

Short Form Filing Option

If the taxpayer qualifies for the Small Business Credit without any of the reductions, they may file a short form return without a computation of the Michigan Business Tax.¹⁴

Professional Employer Organization (PEO)

If the taxpayer leases its officers and employees from a PEO, the compensation paid by the PEO to the taxpayer's officers and employees is included in the taxpayer's (client) tax return for Small Business Credit disqualification purposes.¹⁵

Loss Adjustment

A loss adjustment is used to reduce adjusted business income for the adjusted business income disqualifier (\$1,300,000) and the individual, partner, shareholder disqualifier (\$180,000). The loss adjustment is used only to determine if the taxpayer is eligible for the Small Business Credit alternate tax calculation. The credit calculation or alternate tax is based on adjusted business income before the loss adjustment.¹⁶

The loss adjustment is the amount by which adjusted business income was less than zero in any of the five years immediately preceding the tax year. The negative adjusted business income is used only to the extent needed to qualify for the credit. The taxpayer may not reuse negative adjusted business income. The negative adjusted business income cannot be carried from a year in which no small business tax credit was claimed.

³ MCL 208.36

⁴ 2007 P.A. 36 §417(4) MCL 208.1417(4)

⁵ 2007 P.A. 36 §417(1) MCL 208.1417(1)

⁶ 2007 P.A. 36 §417(1) MCL 208.1417(1)

⁷ 2007 P.A. 36 §417(1)(a) MCL 208.1417(1)(a)

⁸ 2007 P.A. 36 §417(1)(b) MCL 208.1(417(1)(b)

⁹ 2007 P.A. 36 §417(1)(c) MCL 208.1417(1)(c)

¹⁰ 2007 P.A. 36 §417(5) MCL 208.1417(5)

¹¹ 2007 P.A. 36 §417(4) MCL 208.1(417(4)

¹² 2007 P.A. 36 §417(9)(b) MCL 208.1417(9)(b)

¹³ 2007 P.A. 36 §417(6) MCL 208.1417(6)

¹⁴ 2007 P.A. 36 §417(7) MCL 208.1417(7)

¹⁵ 2007 P.A. 36 §417(8) MCL 208.1417(8)

¹⁶ 2007 P.A. 36 §417(9)(d) MCL 208.1417(9)(d)

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