

# Calculation of Tax Base

The Single Business Tax Act does not set out in one place the method for computation of the tax; instead, the components of the tax base are spread throughout the Act in Chapters 1 through 3. The following is a detailed computation.

## Business Income

This is the starting point in the computation. In general, this amount is the net profit or net loss from the business activity.

## For Corporations

This means federal taxable income or loss (federal form 1120, line 30 or 1120A, line 26).

### Worksheet III Business Income/"S" Corporations

1. Federal Form 1120S, Schedule K
  - a. line 1, ordinary income (loss)
  - b. line 2, dividends qualifying for exclusion
  - c. line 3, net short-term capital gain (loss)
  - d. line 4, net long-term capital gain (loss)
  - e. line 5, other net gain (loss) under section 1231
  - f. line 6, other income
2. Total Income or (Loss) -- Add lines a through f
  - a. Federal Form 1120S, Schedule K, line 7, contributions
  - b. Other deductions
3. Total deductions -- Add lines a and b
4. Total Business Income (Subtract line 3 from line 2, enter on Form C-8000, line 7)

## For Partnerships

This means federal taxable income plus all other income or deductions reported separately to partners.

### Worksheet II Business Income

1. Federal Form 1065, Schedule K
  - a. line 1, ordinary income or (loss)
  - b. line 2, guaranteed payments
  - c. line 3, dividends qualifying for exclusion
  - d. line 4, net short-term gain (loss)
  - e. line 5, net long-term capital gain (loss)

- f. line 6, other net gain (loss) under Section 1231
- g. line 7, other income
- 2. Total income (loss) - Add lines a through g
  - a. Federal Form 1065, Schedule K, line 8, contributions
  - b. Other deductions
- 3. Total deductions -- Add lines a and b
- 4. Total business income (Subtract line 3 from line 2; enter on Form C-8000, line 7)

### **For All Other Persons**

This means the portion of federal taxable income or loss derived from business activity.

### **Worksheet I** **Business Income**

- 1. Federal 1040, Schedule C, line 32, net profit or (loss)
- 2. Federal 1040, Schedule E, Part I, line 25, total income or (loss) from rents and royalties
- 3. Federal 1040, Schedule E, Part III, line 35, Windfall Profit Tax Credits/Refund or (withheld)
- 4. Federal 4797, line 14(b)(2), total gain or (loss)
- 5. Federal 1040, Schedule D, line 16, gains from Form 4797 \$\_\_\_\_\_ X 40% or redetermined gains or (losses)
- 6. Other income
- 7. Total business income (Add lines a through f), enter on Form C-8000, line 7)

### **Section 9 Adjustments**

This computation requires certain additions and subtractions from business income. The resulting tax base will consist of profits plus various adjustments which measure the use of labor and capital.

#### Computing the Single Business Tax Adjusted Tax Base

In understanding this extremely complex tax it helps to visualize it as a structure built in five levels:

- 1. The tax base
- 2. The apportioned tax base
- 3. The adjusted tax base
- 4. Special deductions
- 5. Gross receipts reduction

The expression "tax base" is a term of art and is defined precisely in the law. The tax base is arrived at as follows:

ADD to Federal Taxable Income

- 1. Compensation adjustment
- 2. Depreciation
- 3. Income taxes deducted
- 4. Single business tax

5. Interest, dividends and royalties deducted
6. Non-Michigan tax-exempt bond interest
7. Capital loss carryovers and carrybacks
8. Net operating loss carryovers and carrybacks
9. Excluded (business) capital gains of individuals
10. FSC or DISC deductions
11. Partnership losses

SUBTRACT from Federal Taxable Income

1. Interest, dividends and royalties received
2. Business capital losses
3. Partnership income

The resulting tax base is apportioned to Michigan by applying the appropriate allocation or apportionment factor.

The apportioned tax base is further adjusted as follows:

**ADD**

1. Recapture of capital acquisition

**SUBTRACT**

1. Business loss deduction
2. Statutory exemption

The result is the adjusted tax base. This is further reduced by special deductions for labor-intensive businesses. All taxpayers are entitled to an adjustment limiting the tax base to 50% of adjusted gross receipts. The tax is applied to the result, and specified credits are deducted to arrive at the final liability.

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