How is the SBT Calculated? (Cont.)

The Frequently Asked Questions (FAQ’s) may help answer some of your questions or form C-8000/ITC, Single Business Tax Investment Tax Credit and instructions, may also be helpful.

➤ There are numerous other exemptions, reductions and credits that may be allowed. These modify the value-added nature of the SBT and reduce the tax liabilities for firms that qualify to use them.

Once the total tax base is determined, multiply it by the tax rate, then subtract any eligible credits. (See the example for a description of the Single Business Tax calculation.)

What is the tax rate?

The SBT is being phased out over a 23 year period. For tax years beginning on or after October 1, 1994, and before January 1, 1999, the SBT rate is 2.30 percent of the tax base after deductions. Beginning January 1, 1999, the tax rate will be reduced by 0.1 percent each year that the State’s Rainy Day Fund exceeds $250 million dollars. Annualized rates will be required for fiscal year taxpayers and those with returns that cover less than 12 months. The tax rate for a return covering the 12 month period ending December 31, 2001 is 2.0 percent.

What credits are available?

The SBT offers a number of credits to eligible taxpayers, including the Small Business Credit, the Unincorporated/Corporation Credit, the Community Foundation Credit, the Homeless Credit, the Public Contribution Credit, the Public Utility Property Tax Credit, the Michigan Economic Growth Authority Credit, the Brownfield Redevelopment Credit, the Apprenticeship Credit, the Renaissance Zone Credit, the Investment Tax Credit, the Low-grade Hematite Pellet Credit, and the Michigan Historic Preservation Tax Credit. For more information about these credits, call 517-636-4700 or visit our Web site at www.michigan.gov/treasury.

Which SBT form should be filed?

Businesses with a tax liability for SBT must file either a Single Business Tax Annual Return (C-8000) or if eligible, a Single Business Tax Simplified Return (C-8044). If adjusted gross receipts are less than $250,000 a Single Business Tax Notice of No SBT Return Required (C-8030) may be filed. Form C-8030 may now be filed via the Internet. For this new filing process, visit our Web site at: www.michigan.gov/treasury.

When is the return due?

The return is due on the last day of the 4th month after the tax year ends. It must be filed for the same tax period covered by the federal income tax return.

How is an extension requested?

An Application for Extension of Time to File Michigan Tax Returns (form 4) must be filed by the original due date of the return, with full payment of the estimated tax due.

An extension of time to file is not an extension of time to pay. Businesses are required to include an estimated tax payment with the form, or have appropriate estimated tax payments made during the year.

Extension requests received without payment on the account will not be honored. If no tax is owed, no extension is required to avoid penalty and interest.

Who must file SBT quarterly tax estimates?

If the estimated liability for the tax year is over $600, quarterly estimates must be filed with payment. For calendar year taxpayers, quarterly returns are due the last day of April, July, October and January. For fiscal-year filers, quarterly returns are due the last day of the first month after each quarter.

How does the SBT apply to firms doing business in more than one state?

Firms doing business in Michigan and in other states apportion their tax base to Michigan using a formula based on their percentage of property, payroll and sales in Michigan. Financial organizations and transportation companies use a single factor formula based on gross business and revenue miles, respectively.

Does the SBT recognize the unitary method of taxation?

No. Only firms actually engaged in business activity in Michigan are subject to SBT. A foreign subsidiary or parent corporation with no Michigan business activity is not subject to SBT.

EXAMPLE*

This example is for a 100% Michigan taxpayer with a 12 month return ending 12/31/2001.

Federal Taxable Income $ 50,000
Compensation + 262,000
Depreciation + 70,000
Interest Paid + 28,000
Tax Base $400,000
Recapture of Capital Acquisition Deduction + 20,000
Adjusted Tax Base $420,000
Tax Rate × .02
Tax Before All Credits $8,400
Investment Tax Credit (ITC) (a) = $739
Tax After Investment Tax Credit $7,661
Small Business Credit (b) = $2,796
Tax After Credits** $4,865

(a) Investment Tax Credit (ITC) Calculation
Assume adjusted gross receipts of $5,100,000 and net capital investments of $100,000.
Investment Tax Credit = Net Capital Investment $100,000 - Tax Rate For Year OR .02 (2.0%) × Multiplied by: .023 Multiplication Factor .023 (2.3%) = Investment Tax Credit $739

(b) Small Business Credit Calculation
Profits $50,000
Owners’ Compensation + $7,000
Adjusted Business Income (ABI) $120,000
100%
$120,000 (49% x $240,000) - $63,000 = 36.5% (ITC Adjusted)
Depreciation - $40,000 $76,000
Tax After Investment Tax Credit $76,000
Small Business Credit $2,796

EXCEPT OF THE CALCULATION*

Sum of: Federal Taxable Income — profits.
Compensation — wages, salaries, benefits, etc.
Depreciation — as deducted in federal income tax return.
Net Interest Paid — interest paid less interest received.

Equals: Your Tax Base
Multiplied by:
Apportionment Factor — weighted sales (60%), property (5%) and payroll (5%) factors.
Payroll Factor — proportion of total payroll in Michigan.
Property Factor — proportion of total property in Michigan.
Sales Factor — proportion of total Michigan sales.

Equals: Adjusted Tax Base
Plus
Recapture of Capital Acquisition Deduction — recapture any depreciable real or personal property that you disposed of during the year which was acquired in tax years beginning on or after January 1, 1976 and before January 1, 2000.
Statutory Exemption — an exemption of $45,000 which is reduced for firms with modified business income exceeding $45,000, declining to 0 when modified business income exceeds $67,500.
Business Loss Deduction — loss carryovers from previous years.

Equals: Adjusted Tax Base
Minus:
Excess Compensation Reduction — the amount by which total compensation exceeds 63 percent of the tax base before apportionment.
Gross Receipts Reduction — the amount by which the adjusted tax base exceeds 50 percent of adjusted gross receipts.

Multiplied by: Tax rate in effect.
Equals: Tax Before All Credits
Minus:
Investment Tax Credit (ITC) — the ITC replaced the capital acquisition deduction for tax years beginning after December 31, 1999. The amount of the credit is calculated by multiplying net capital investments made in Michigan during the taxable year by an annualized percentage determined by dividing the SBT tax rate in effect for the year by 2.3%. The result is multiplied by a percentage based on adjusted gross receipts.

Equals: Tax After Investment Tax Credit
Minus:
Small BusinessLow Profit Credit — for firms with adjusted business income below $475,000, gross receipts below $10 million and adjusted business income to any business owner below $115,000. The credit may be up to 100% of liability and declines as business income increases. Eligible businesses claiming this credit may choose to pay an alternate 2 percent of adjusted business income (net income plus compensation to active owners plus less carryovers).
Other Credits — see What Credits are Available?

Equals: Single Business Tax Liability