

MEMO# 22007

December 5, 2007

Michigan Repeals Services Tax

[22007]

December 5, 2007

TO: ADVISER DISTRIBUTOR TAX ISSUES TASK FORCE No. 21-07
TAX MEMBERS No. 52-07 RE: MICHIGAN REPEALS SERVICES TAX

The Michigan legislature has repealed retroactively Michigan's six percent tax on the consumption of certain services, including certain investment advice services, which became effective on December 1 (P.A. 93). [1] The Institute urged repeal of P.A. 93's tax on investment advice services in letters sent to members of the Michigan legislature and Governor Granholm. [2]

The Michigan Department of Treasury ("DOT") has issued a press release (currently located on DOT's homepage at <http://www.michigan.gov/treasury>) clarifying that businesses will be held harmless if they failed to collect the services tax on December 1. The Treasury's release also includes instructions for businesses that did collect the tax.

The Act repealing the services tax generally imposes a 21.99 percent surcharge on the Michigan Business Tax ("MBT"). [3] A 27.7 percent surcharge is imposed on financial institutions (subject to the MBT based on net capital) for tax years ending after December 31, 2007 and before January 1, 2009. This surcharge is reduced to 23.4 percent for tax years beginning on or after January 1, 2009. The surcharge is scheduled to expire in 2017 if personal income growth in Michigan increases during any one of the three calendar years prior to the scheduled expiration. Otherwise, the higher business tax rate, including the surcharge, will remain in effect.

The surcharge generally is capped at \$6 million per taxpayer per tax year. Insurance

companies that pay a premiums tax are exempt from the surcharge. To read the legislation go to

<http://www.legislature.mi.gov/documents/2007-2008/billenrolled/House/pdf/2007-HNB-5408.pdf> (the surcharge provision is in Chapter 2C, § 281).

Lisa Robinson
Associate Counsel

endnotes

[1] See Institute [Memorandum](#) (21805) to Adviser Distributor Tax Issues Task Force No. 16-07 and Tax Committee, dated October 9, 2007.

[2] See Institute [Memorandum](#) (21887) to Adviser Distributor Tax Issues Task Force No. 18-07 and Tax Members No. 45-07, dated October 24, 2007.

[3] Thus, a 21.99% surcharge would increase a \$100 MBT liability to \$121.99.

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.