



**The Voice of Small Business**

Charles S. Owens, State Director  
National Federation of Independent Business  
115 W. Allegan / Suite 310  
Lansing, MI 48933  
(517) 485-3409

**Testimony in Support of House Bill 4361 and 4362  
Corporate Income Tax Proposal and MBT Replacement  
Before the Senate Restructure Reform and Reinvent Commerce  
Wednesday, May 11, 2011**

My name is Charlie Owens and I am the State Director for the National Federation of Independent Business, an advocate for Michigan small businesses owners.

We are here today to support the compromise tax proposal as put forth by Governor Snyder, Speaker of the House Jase Bolger and Senate Majority Leader Randy Richardville.

Specifically, the Corporate C Income Tax Proposal as a replacement for the current Michigan Business Tax (MBT). As a point of information, we surveyed our members on this issue with the following result: 71 percent of members responding supported the corporate income tax proposal, 11 percent did not and the remaining 18 percent were undecided.

The Michigan Business Tax was passed on June 28, 2007 and it was a compromise between the Senate proposed Business Economic Stimulus Tax or "BEST", the proposed House tax plan and pieces and parts of other proposals thrown in for good measure. A better name for the tax would have been the "FrankenTax" as it bore more of a resemblance to the stitched together monster of the folk tale than good tax policy. To make matters worse, in December of 2007, the just passed MBT mess was amended to include a 21.99 percent surcharge to replace the revenue from the repeal of an unpopular and bungled services tax passed in the fall of 2007. The MBT was a product of political expedience, not good economic development policy.

The bottom line is that the Michigan Business Tax is no improvement over the Single Business Tax (SBT) it replaced and for many businesses it is worse. It is a complicated tax that is arbitrary and capricious in how it treats different segments of Michigan's business community. It taxes many small businesses that already pay once through the personal income tax and for a number of large businesses in the state with no tax liability, it actually gives them money back through refundable credits. For almost every business that pays the tax, and did not get a carved out credit, it is a

confiscatory nightmare with many of our members reporting tax increases of double to tenfold over the Single Business Tax they paid in prior years.

We have had a number of our small business members tell us that they have laid off employees or put-off hiring new employees in order to meet the higher tax liability imposed by the Michigan Business Tax.

As proposed, the Corporate Income Tax would only apply to those businesses that are "C" corporations. Many small businesses that are partnerships, sole proprietors, Sub S corporations, or LLC's would be exempt from the tax and continue to pay their business taxes through the personal income tax. For many, this would end the "double taxation" that currently exists when a business has to pay business taxes through both the personal income tax and the Michigan Business Tax. Small Businesses in Michigan that paid their business taxes through the state income tax account for almost \$800 million of income tax revenue.

To conclude, the Michigan Business Tax is a jobs killer and a disincentive to do business in this state. To be blunt, it marks our state as having a hostile, anti-business tax climate. The Governor and House and Senate leadership has recognized that fact and has put forward a proposal that seeks to address this problem. The proposal seeks to create a tax that is equitable across the board for all businesses, is reasonable when compared to other states and is familiar to businesses looking to locate here.

We urge members of this committee to support the Corporate Income Tax proposal and House Bills 4361 and 4362 and related bills.

Attachments:

- Small business taxes paid through state personal income taxes
- SBA Michigan profile excerpt
- Letter from Tom Zimmerman, Spectrum Automation
- Letter from Jim Swain, Courtesy Car and Truck

## **Small Business Taxes Paid Through State Income Tax**

Assumptions that small businesses exempted from Governor Snyder's proposed Corporate C Tax (because they are not "C" corporations) do not pay "business taxes" are incorrect.

For these businesses, tax on business income is paid via the state income tax where business income is reported – typically derived from federal forms such as Schedule C.

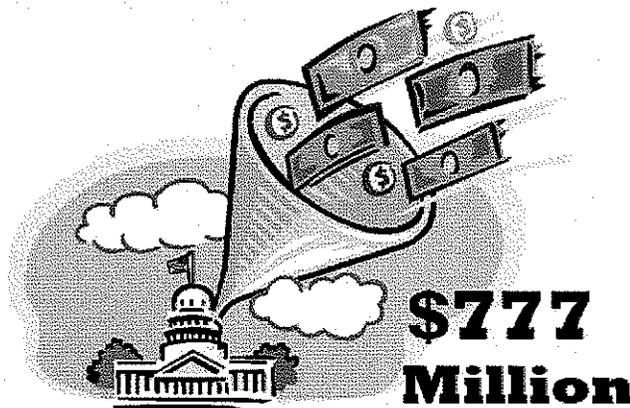
Michigan small businesses will pay \$777 million in taxes on business income reported on state income tax forms. In addition, they are **DOUBLE TAXED** if they have to pay the Michigan Business Tax in addition to the personal income tax.

*Source: Anderson Economic Group, LLC – State and Local Taxes Paid by Michigan Business.*

These business also pay property taxes, payroll taxes, and sales taxes, licensing fees etc.

### **Small Business Facts**

**How much do Michigan businesses pay on business income reported on state personal income taxes?**



Source: Anderson Economic Group, LLC



# Michigan Small Business Profile

*Advocacy: the voice of small business in government*

**Table 1: Firms and Employment in Michigan by Industry and Firm Size, 2008**  
(Nonfarm, Thousands)

Industry	Nonemployer Firms	Employer Firms			Employment		
		Total	1-19 Employees	1-499 Employees	Total	1-19 Employees	1-499 Employees
Total	640.7	182.6	158.6	179.5	3,636.2	661.9	1,867.9
Forestry, etc. and agriculture support	5.5	0.6	0.5	0.6	3.0	1.8	2.9
Mining	2.6	0.4	0.3	0.3	5.7	1.1	3.0
Utilities	0.4	0.1	0.0	0.1	D	0.2	1.6
Construction	78.6	21.5	20.2	21.5	146.0	63.6	122.4
Manufacturing	11.1	12.2	8.3	11.6	560.3	49.7	265.4
Wholesale trade	11.2	9.8	7.6	9.2	170.6	32.8	101.6
Retail trade	58.5	24.1	21.6	23.7	466.4	91.7	192.4
Transportation and warehousing	26.9	4.7	3.9	4.5	103.9	13.1	40.8
Information	7.8	1.7	1.3	1.6	76.7	5.6	17.7
Finance and insurance	18.3	7.4	6.5	7.2	170.3	22.3	62.4
Real estate and rental and leasing	49.9	6.4	5.8	6.3	53.2	17.5	36.8
Professional, scientific, and technical svcs.	79.4	20.7	18.6	20.3	256.3	62.3	148.9
Management of companies and enterprises	--	1.1	0.1	0.7	114.5	0.4	14.4
Admin., support, waste mgt., remed. svcs.	54.9	10.7	8.7	10.4	306.3	29.9	158.7
Educational services	17.3	2.0	1.6	1.9	67.6	7.2	32.2
Health care and social assistance	73.3	20.6	17.9	20.4	558.6	93.8	269.4
Arts, entertainment, and recreation	29.5	3.4	2.9	3.4	49.8	11.4	37.2
Accommodation and food services	8.7	15.1	11.8	14.9	340.2	69.2	212.5
Other services (except public admin.)	106.9	22.1	20.5	22.0	162.1	87.8	146.8
Unclassified	--	0.6	0.6	0.6	0.7	0.6	0.7

Source: U.S. Dept. of Commerce, Bureau of the Census, Statistics of U.S. Businesses. (See [www.sba.gov/advocacy/849/12162](http://www.sba.gov/advocacy/849/12162) for data from other years, and for starts, closures, job creation and destruction by industry and by size category.)

## SBA Michigan Profile 2010

Total Net New Jobs	1-4	5-9	10-19	20-99	100-499	<500	500+
2003 - 2004	9,268	32,076	11,987	5,909	-4,326	-7,582	38,064
2004 - 2005	-99,923	20,279	-3,250	-14,522	-32,881	-63	-30,437
2005 - 2006	33,930	22,051	-277	420	8,047	-4,121	26,120
2006 - 2007	-128,786	19,366	-5,347	-11,596	-23,533	-34,749	-72,927
Total	-185,511	93,772	3,113	-19,789	-52,693	-46,515	-39,180
Total <20	77,096						
Total <100	24,403						
Total >100	-232,026						

**If every small business only hired one employee that would equal 182,000 jobs in Michigan**



Members of the House Tax Policy Committee:

My name is Tom Zimmerman and I am the owner of Spectrum Automation located in Livonia, Michigan. In the interest of full disclosure, I am also the Chair of the Leadership Council for the National Federation of Independent Business (NFIB) in Michigan.

Please accept my apology for being unable to testify in person in front of your committee today. As you can imagine, I want to take every opportunity to increase sales for my business during these difficult times. An opportunity to do so is the reason I cannot come to Lansing today.

Spectrum Automation Company is a Michigan Corporation and a "C" corporation founded in 1969. With principal offices in Livonia, MI, the Company designs, develops, and manufactures specialty parts feeding and material handling systems for such diversified fields as automotive, farm implement, fastener, medical, hardware, food and beverage, aerospace and munitions industries.

We employ twenty workers at our facility and we offer our employees competitive wages and benefits. It is with pride that I tell you that many of our employees have been with us for more than twenty years and are highly skilled machinists and trade craftsman.

As a manufacturer in Michigan I do not think I have to tell you how hard it has been staying in business these past years. However, we have made the sacrifices necessary to survive, and I am also proud to tell you that we have been able to keep all of our employees with us during this time – our employees are the key to our success and we value them greatly.

We saw our tax liability to the state increase as a result of the passage of the Michigan Business Tax (MBT). We found this to be very frustrating and contradictory to the claims being made that the state was doing everything to create jobs. Please forgive me if I seem preachy here, but you do not create jobs – I do. So when you make my task of creating jobs more difficult by increasing my taxes, I hope you can understand my confusion. To be concise: we paid less tax under the Single Business Tax than the Michigan Business Tax that replaced it.

We did a quick analysis of our tax liability under the Corporate C tax as proposed by Governor Snyder, and we found that our business taxes would be significantly less. That is more like it, that will help me – thank you. I hope it passes as proposed. As a member of the National Federation of Independent Business (NFIB) I voted to support the Governor's proposal on my NFIB member survey.

I hope you find this information helpful and I again am sorry I could not be there in person to answer any questions.

Respectfully Submitted  
Tom Zimmerman, President  
Spectrum Automation, Livonia, MI

My name is Tom Little, I have been the owner of ServiceMaster of Kalamazoo since 1981. We are a cleaning and restoration business serving Southwest Michigan. We employ 120 people with approx. 40 full time and 80 part time.

Ours is a service business. One of the large segments of our business is our janitorial division where we serve other businesses. We can't offshore our services we must have business clients that are located in SW Michigan for us to serve and to stay in business.

Seeing businesses close or reduce operations has in turn impacted our business in a negative way.

We work harder today than ever before and realize reduced sales which in turn equates to fewer jobs and reduced wages for those we still employ.

Now fast forward to the MBT. In addition to struggling for survival not to mention make a profit our state now has a business tax that even our CPA is unsure of what it will mean. If a profit was possible for us there is no incentive at all to make a profit with the MBT especially with the surcharge. The time and monies paid out by business owners to tax professionals to both understand the MBT and try in some way to plan for its impact is not "just a cost of doing business" it is a huge waste of money and resources that could be spent on growing and making a business more profitable, which in term would create jobs and bring in tax revenues.

Lansing must realize that with a tax like the MBT that "Compliance goes down as the complexity of the tax goes up, thus impacting tax revenues".

Let me speak briefly to retirement. What is retirement? I personally witness those I know in public sector jobs retire, draw their pension, go on to take a second public service job in another area, and retire from there. This is not an option for us.

The word pension is not in the vocabulary of most small businesses in Michigan. Pension to me means, there will be money for me when I retire and I did not have to put in a dime during my working career to have that happen.

Our business implemented a simple IRA for our employees in 2006 only to have to discontinue the plan in 2010 in an effort to curb expenses. This has cost us credibility and a drop of confidence in key staff. Some of who have elected to seek other employment opportunities and they specifically sighted our lack of ability to have some sort of company retirement program as one of the reasons.

Unless I'm missing something, I fully support the taxing of pensions a part of the solution.

In closing, I tell anyone who will listen that I'm as excited and optimistic as I have been in the 30 years of owning this business that Michigan has a chance to make a change that will take us from the bottom of states to do business in to the top. Why would a business want to come to Michigan to do business if those who are in business here in the state can't plan for what the MBT will do to their business?

I feel strongly that we have a wonderful state to live in, we can be attractive to new businesses, and we have facilities, people, arts, recreation and much more. The key is you need to have a j-o-b to enjoy what Michigan has to offer and to make this happen.

Please give us business tax that is simple to understand and implement that will keep and attract business to Michigan.

I would urge each of you to make the tough decisions you are faced with, trust me every business in Michigan is making tough decisions every day and they have been for years.

Thank you for allowing me to share my story and thank you for your service to all of us here in Michigan.

March 23, 2009

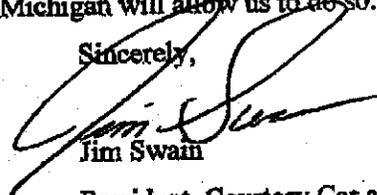
To the Michigan Dept. of Treasury,

My name is Jim Swain, President of Courtesy Car and Truck (EIN # 38-3508988). Due to the decrease in business and the very large increase in my Michigan business tax (950%), I absolutely cannot send you money for the tax that I owe, under the current MI business tax that is currently the law. I understand that I owe you this tax and I am very sorry that I cannot pay you. I have my help down to 6hrs. per day and at one time employed as many as 19 people. I am now down to 12 employees.

My customer base is leaving the state faster than I can find new customers. I believe that there is no work for them because you are taxing the businesses to death and the businesses are leaving the state or going out of business all together.

In 2007 my federal taxes were \$570.00 and state taxes were \$1,825.00. In 2008, my federal taxes were \$2,211.00 and state taxes were \$17,412.00, an increase of 950% at the state level alone! I only wish that I had that much more business for such a large increase in my tax. Please accept my check for \$1,000.00 and I will pay you the balance as soon as the economy in the state of Michigan will allow us to do so.

Sincerely,



Jim Swain

President, Courtesy Car and Truck