

Resources

2011-2012 Transitional Tax Planning

December 23, 2011

In today's challenging economic climate, it is more important than ever to utilize all available federal, state and local tax credits and minimize tax liabilities. When the Michigan Corporate Income Tax (CIT) becomes effective on January 1, 2012, the Michigan Business Tax (MBT) will disappear along with the credits available thereunder. Below are some of the important transitional planning issues for Michigan taxpayers.

- Taxpayers that delay personal property tax payments on industrial parcels until 2012 not only forgo a deductible expense in 2011, but may also miss the last opportunity to receive a state tax credit. Under the MBT, a taxpayer may claim a credit against the MBT liability equal to 35% of the eligible industrial personal property taxes paid. Taxpayers should consider paying property taxes on industrial personal property prior to year-end to obtain a credit in 2011. This credit will not exist in 2012.
- Taxpayers subject to Michigan's new CIT, beginning in 2012, should consider traditional tax planning (e.g., acceleration deductions and deferral of income).
- Domestic C corporations should review their operating structure to determine if it would be advantageous to reorganize as a flow-through entity—along with the cost of any change in form of entity.
- C corporations are the only taxpayers that will be required to pay the CIT; owners of flow-through entities will be subject to only one level of tax at the owners' level. However, with this change, flow-through entities with non-Michigan owners will need to carefully evaluate new or revised withholding requirements to ensure full compliance under the new withholding law.
- Non-U.S. companies should consider their activities both within and without Michigan to determine the best structure for their activities. Since many foreign businesses have subsidiaries based in Michigan, those parent companies should understand the activities of those employees to determine their own Michigan tax filing responsibility—and don't accidentally create nexus.
- The CIT rate, for 2012, for a corporation is 6% while the tax rate for Michigan individual income tax is 4.35%.

With the changes in the Michigan tax structure, transitional tax planning is important in maximizing tax benefits available in 2011 and in future years. In addition, quick action must be taken to ensure that benefits from the industrial personal property tax credit are realized now.

Taxpayers and interested parties with questions regarding the Michigan Business Tax, the Michigan Corporate Income Tax or other tax matters may contact any of the listed Dykema attorneys.

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Practice Areas

Taxation

2011-2012 Transitional Tax Planning (Cont.)

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