

# SENATE BILL No. 962

October 28, 2009, Introduced by Senator GEORGE and referred to the Committee on Finance.

A bill to amend 2007 PA 36, entitled  
"Michigan business tax act,"  
by amending section 111 (MCL 208.1111), as amended by 2008 PA 433.

## THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1       Sec. 111. (1) "Gross receipts" means the entire amount  
2       received by the taxpayer as determined by using the taxpayer's  
3       method of accounting used for federal income tax purposes, less any  
4       amount deducted as bad debt for federal income tax purposes that  
5       corresponds to items of gross receipts included in the modified  
6       gross receipts tax base for the current tax year or a past tax year  
7       phased in over a 5-year period starting with 50% of that amount in  
8       the 2008 tax year, 60% in the 2009 tax year, 60% in the 2010 tax  
9       year, 75% in the 2011 tax year, and 100% in the 2012 tax year and  
10      each tax year thereafter, from any activity whether in intrastate,

1 interstate, or foreign commerce carried on for direct or indirect  
2 gain, benefit, or advantage to the taxpayer or to others except for  
3 the following:

4 (a) Proceeds from sales by a principal that the taxpayer  
5 collects in an agency capacity solely on behalf of the principal  
6 and delivers to the principal.

7 (b) Amounts received by the taxpayer as an agent solely on  
8 behalf of the principal that are expended by the taxpayer for any  
9 of the following:

10 (i) The performance of a service by a third party for the  
11 benefit of the principal that is required by law to be performed by  
12 a licensed person.

13 (ii) The performance of a service by a third party for the  
14 benefit of the principal that the taxpayer has not undertaken a  
15 contractual duty to perform.

16 (iii) Principal and interest under a mortgage loan or land  
17 contract, lease or rental payments, or taxes, utilities, or  
18 insurance premiums relating to real or personal property owned or  
19 leased by the principal.

20 (iv) A capital asset of a type that is, or under the internal  
21 revenue code will become, eligible for depreciation, amortization,  
22 or accelerated cost recovery by the principal for federal income  
23 tax purposes, or for real property owned or leased by the  
24 principal.

25 (v) Property not described under subparagraph (iv) that is  
26 purchased by the taxpayer on behalf of the principal and that the  
27 taxpayer does not take title to or use in the course of performing

1 its contractual business activities.

2 (vi) Fees, taxes, assessments, levies, fines, penalties, or  
3 other payments established by law that are paid to a governmental  
4 entity and that are the legal obligation of the principal.

5 (c) Amounts that are excluded from gross income of a foreign  
6 corporation engaged in the international operation of aircraft  
7 under section 883(a) of the internal revenue code.

8 (d) Amounts received by an advertising agency used to acquire  
9 advertising media time, space, production, or talent on behalf of  
10 another person.

11 (e) Amounts received by a newspaper to acquire advertising  
12 space not owned by that newspaper in another newspaper on behalf of  
13 another person. This subdivision does not apply to any  
14 consideration received by the taxpayer for acquiring that  
15 advertising space.

16 (f) Notwithstanding any other provision of this section,  
17 amounts received by a taxpayer that manages real property owned by  
18 a third party that are deposited into a separate account kept in  
19 the name of that third party and that are not reimbursements to the  
20 taxpayer and are not indirect payments for management services that  
21 the taxpayer provides to that third party.

22 (g) Proceeds from the taxpayer's transfer of an account  
23 receivable if the sale that generated the account receivable was  
24 included in gross receipts for federal income tax purposes. This  
25 subdivision does not apply to a taxpayer that during the tax year  
26 both buys and sells any receivables.

27 (h) Proceeds from any of the following:

1           (i) The original issue of stock or equity instruments or equity  
2 issued by a regulated investment company as that term is defined  
3 under section 851 of the internal revenue code.

4           (ii) The original issue of debt instruments.

5           (i) Refunds from returned merchandise.

6           (j) Cash and in-kind discounts.

7           (k) Trade discounts.

8           (l) Federal, state, or local tax refunds.

9           (m) Security deposits.

10          (n) Payment of the principal portion of loans.

11          (o) Value of property received in a like-kind exchange.

12          (p) Proceeds from a sale, transaction, exchange, involuntary  
13 conversion, maturity, redemption, repurchase, recapitalization, or  
14 other disposition or reorganization of tangible, intangible, or  
15 real property, less any gain from the disposition or reorganization  
16 to the extent that the gain is included in the taxpayer's federal  
17 taxable income, if the property satisfies 1 or more of the  
18 following:

19           (i) The property is a capital asset as defined in section  
20 1221(a) of the internal revenue code.

21           (ii) The property is land that qualifies as property used in  
22 the trade or business as defined in section 1231(b) of the internal  
23 revenue code.

24           (iii) The property is used in a hedging transaction entered into  
25 by the taxpayer in the normal course of the taxpayer's trade or  
26 business primarily to manage the risk of exposure to foreign  
27 currency fluctuations that affect assets, liabilities, profits,

1 losses, equity, or investments in foreign operations; interest rate  
2 fluctuations; or commodity price fluctuations. For purposes of this  
3 subparagraph, the actual transfer of title of real or tangible  
4 personal property to another person is not a hedging transaction.  
5 Only the overall net gain from the hedging transactions entered  
6 into during the tax year is included in gross receipts. As used in  
7 this subparagraph, "hedging transaction" means that term as defined  
8 under section 1221 of the internal revenue code regardless of  
9 whether the transaction was identified by the taxpayer as a hedge  
10 for federal income tax purposes, provided, however, that  
11 transactions excluded under this subparagraph and not identified as  
12 a hedge for federal income tax purposes shall be identifiable to  
13 the department by the taxpayer as a hedge in its books and records.

14 (iv) The property is investment and trading assets managed as  
15 part of the person's treasury function. For purposes of this  
16 subparagraph, a person principally engaged in the trade or business  
17 of purchasing and selling investment and trading assets is not  
18 performing a treasury function. Only the overall net gain from the  
19 treasury function incurred during the tax year is included in gross  
20 receipts. As used in this subparagraph, "treasury function" means  
21 the pooling and management of investment and trading assets for the  
22 purpose of satisfying the cash flow or liquidity needs of the  
23 taxpayer's trade or business.

24 (q) The proceeds from a policy of insurance, a settlement of a  
25 claim, or a judgment in a civil action less any proceeds under this  
26 subdivision that are included in federal taxable income.

27 (r) For a sales finance company, as defined in section 2 of

1 the motor vehicle sales finance act, 1950 (Ex Sess) PA 27, MCL  
2 492.102, and directly or indirectly owned in whole or in part by a  
3 motor vehicle manufacturer as of January 1, 2008, and for a person  
4 that is a broker or dealer as defined under section 78c(a)(4) or  
5 (5) of the securities exchange act of 1934, 15 USC 78c, or a person  
6 included in the unitary business group of that broker or dealer  
7 that buys and sells for its own account, contracts that are subject  
8 to the commodity exchange act, 7 USC 1 to 27f, amounts realized  
9 from the repayment, maturity, sale, or redemption of the principal  
10 of a loan, bond, or mutual fund, certificate of deposit, or similar  
11 marketable instrument provided such instruments are not held as  
12 inventory.

13 (s) For a sales finance company, as defined in section 2 of  
14 the motor vehicle sales finance act, 1950 (Ex Sess) PA 27, MCL  
15 492.102, and directly or indirectly owned in whole or in part by a  
16 motor vehicle manufacturer as of January 1, 2008, and for a person  
17 that is a broker or dealer as defined under section 78c(a)(4) or  
18 (5) of the securities exchange act of 1934, 15 USC 78c, or a person  
19 included in the unitary business group of that broker or dealer  
20 that buys and sells for its own account, contracts that are subject  
21 to the commodity exchange act, 7 USC 1 to 27f, the principal amount  
22 received under a repurchase agreement or other transaction properly  
23 characterized as a loan.

24 (t) For a mortgage company, proceeds representing the  
25 principal balance of loans transferred or sold in the tax year. For  
26 purposes of this subdivision, "mortgage company" means a person  
27 that is licensed under the mortgage brokers, lenders, and servicers

1   licensing act, 1987 PA 173, MCL 445.1651 to 445.1684, or the  
2   secondary mortgage loan act, 1981 PA 125, MCL 493.51 to 493.81, and  
3   has greater than 90% of its revenues, in the ordinary course of  
4   business, from the origination, sale, or servicing of residential  
5   mortgage loans.

6       (u) For a professional employer organization, any amount  
7   charged by a professional employer organization that represents the  
8   actual cost of wages and salaries, benefits, worker's compensation,  
9   payroll taxes, withholding, or other assessments paid to or on  
10   behalf of a covered employee by the professional employer  
11   organization under a professional employer arrangement.

12       (v) Any invoiced items used to provide more favorable floor  
13   plan assistance to a person subject to the tax imposed under this  
14   act than to a person not subject to this tax and paid by a  
15   manufacturer, distributor, or supplier.

16       (w) For an individual, estate, or other person organized for  
17   estate or gift planning purposes, amounts received other than those  
18   from transactions, activities, and sources in the regular course of  
19   the taxpayer's trade or business. For purposes of this subdivision,  
20   all of the following apply:

21       (i) Amounts received from transactions, activities, and sources  
22   in the regular course of the taxpayer's business include, but are  
23   not limited to, the following:

24       (A) Receipts from tangible and intangible property if the  
25   acquisition, rental, lease, management, or disposition of the  
26   property constitutes integral parts of the taxpayer's regular trade  
27   or business operations.

1 (B) Receipts received in the course of the taxpayer's trade or  
2 business from stock and securities of any foreign or domestic  
3 corporation and dividend and interest income.

4 (C) Receipts derived from isolated sales, leases, assignments,  
5 licenses, divisions, or other infrequently occurring dispositions,  
6 transfers, or transactions involving tangible, intangible, or real  
7 property if the property is or was used in the taxpayer's trade or  
8 business operation.

9 (D) Receipts derived from the sale of an interest in a  
10 business that constitutes an integral part of the taxpayer's  
11 regular trade or business.

12 (E) Receipts derived from the lease or rental of real  
13 property.

14 (ii) Receipts excluded from gross receipts include, but are not  
15 limited to, the following:

16 (A) Receipts derived from investment activity, including  
17 interest, dividends, royalties, and gains from an investment  
18 portfolio or retirement account, if the investment activity is not  
19 part of the taxpayer's trade or business.

20 (B) Receipts derived from the disposition of tangible,  
21 intangible, or real property held for personal use and enjoyment,  
22 such as a personal residence or personal assets.

23 (x) Receipts derived from investment activity by a person that  
24 is organized exclusively to conduct investment activity and that  
25 does not conduct investment activity for any person other than an  
26 individual or a person related to that individual or by a common  
27 trust fund established under the collective investment funds act,



1 1941 PA 174, MCL 555.101 to 555.113. For purposes of this  
2 subdivision, a person is related to an individual if that person is  
3 a spouse, brother or sister, whether of the whole or half blood or  
4 by adoption, ancestor, lineal descendent of that individual or  
5 related person, or a trust benefiting that individual or 1 or more  
6 persons related to that individual.

7 (y) Interest income and dividends derived from obligations or  
8 securities of the United States government, this state, or any  
9 governmental unit of this state. As used in this subdivision,  
10 "governmental unit" means that term as defined in section 3 of the  
11 shared credit rating act, 1985 PA 227, MCL 141.1053.

12 (z) Dividends and royalties received or deemed received from a  
13 foreign operating entity or a person other than a United States  
14 person, including, but not limited to, the amounts determined under  
15 section 78 of the internal revenue code and sections 951 to 964 of  
16 the internal revenue code, phased in over a 5-year period starting  
17 with 50% of that amount in the 2008 tax year, 60% in the 2009 tax  
18 year, 60% in the 2010 tax year, 75% in the 2011 tax year, and 100%  
19 in the 2012 tax year and each tax year thereafter.

20 (aa) To the extent not deducted as purchases from other firms  
21 under section 203, each of the following:

22 (i) Sales or use taxes collected from or reimbursed by a  
23 consumer or other taxes the taxpayer collected directly from or was  
24 reimbursed by a purchaser and remitted to a local, state, or  
25 federal tax authority, phased in over a 5-year period starting with  
26 50% of that amount in the 2008 tax year, 60% in the 2009 tax year,  
27 60% in the 2010 tax year, 75% in the 2011 tax year, and 100% in the

1 2012 tax year and each tax year thereafter.

2 (ii) In the case of receipts from the sale of cigarettes or  
3 tobacco products by a wholesale dealer, retail dealer, distributor,  
4 manufacturer, or seller, an amount equal to the federal and state  
5 excise taxes paid by any person on or for such cigarettes or  
6 tobacco products under subtitle E of the internal revenue code or  
7 other applicable state law, phased in over a 3-year period starting  
8 with 60% of that amount in the 2008 tax year, 75% in the 2009 tax  
9 year, and 100% in the 2010 tax year and each tax year thereafter.

10 (iii) In the case of receipts from the sale of motor fuel by a  
11 person with a motor fuel tax license or a retail dealer, an amount  
12 equal to federal and state excise taxes paid by any person on such  
13 motor fuel under section 4081 of the internal revenue code or under  
14 other applicable state law, phased in over a 5-year period starting  
15 with 50% of that amount in the 2008 tax year, 60% in the 2009 tax  
16 year, 60% in the 2010 tax year, 75% in the 2011 tax year, and 100%  
17 in the 2012 tax year and each tax year thereafter.

18 (iv) In the case of receipts from the sale of beer, wine, or  
19 intoxicating liquor by a person holding a license to sell,  
20 distribute, or produce those products, an amount equal to federal  
21 and state excise taxes paid by any person on or for such beer,  
22 wine, or intoxicating liquor under subtitle E of the internal  
23 revenue code or other applicable state law, phased in over a 5-year  
24 period starting with 50% of that amount in the 2008 tax year, 60%  
25 in the 2009 tax year, 60% in the 2010 tax year, 75% in the 2011 tax  
26 year, and 100% in the 2012 tax year and each tax year thereafter.

27 (v) In the case of receipts from the sale of communication,

1 video, internet access and related services and equipment, any  
2 government imposed tax, fee, or other imposition in the nature of a  
3 tax or fee required by law, ordinance, regulation, ruling, or other  
4 legal authority and authorized to be charged on a customer's bill  
5 or invoice, phased in over a 5-year period starting with 50% of  
6 that amount in the 2008 tax year, 60% in the 2009 tax year, 60% in  
7 the 2010 tax year, 75% in the 2011 tax year, and 100% in the 2012  
8 tax year and each tax year thereafter. This subparagraph does not  
9 include the recovery of net income taxes, net worth taxes, property  
10 taxes, or the tax imposed under this act.

11 (vi) In the case of receipts from the sale of electricity,  
12 natural gas, or other energy source, any government imposed tax,  
13 fee, or other imposition in the nature of a tax or fee required by  
14 law, ordinance, regulation, ruling, or other legal authority and  
15 authorized to be charged on a customer's bill or invoice, phased in  
16 over a 5-year period starting with 50% of that amount in the 2008  
17 tax year, 60% in the 2009 tax year, 60% in the 2010 tax year, 75%  
18 in the 2011 tax year, and 100% in the 2012 tax year and each tax  
19 year thereafter. This subparagraph does not include the recovery of  
20 net income taxes, net worth taxes, property taxes, or the tax  
21 imposed under this act.

22 (vii) Any deposit required under any of the following, phased  
23 in over a 5-year period starting with 50% of that amount in the  
24 2008 tax year, 60% in the 2009 tax year, 60% in the 2010 tax year,  
25 75% in the 2011 tax year, and 100% in the 2012 tax year and each  
26 tax year thereafter:

27 (A) 1976 IL 1, MCL 445.571 to 445.576.

1 (B) R 436.1629 of the Michigan administrative code.

2 (C) R 436.1723a of the Michigan administrative code.

3 (D) Any substantially similar beverage container deposit law  
4 of another state.

5 (viii) An excise tax collected pursuant to the airport parking  
6 tax act, 1987 PA 248, MCL 207.371 to 207.383, collected from or  
7 reimbursed by a consumer and remitted as provided in the airport  
8 parking tax act, 1987 PA 248, MCL 207.371 to 207.383, phased in  
9 over a 5-year period starting with 50% of that amount in the 2008  
10 tax year, 60% in the 2009 tax year, 60% in the 2010 tax year, 75%  
11 in the 2011 tax year, and 100% in the 2012 tax year and each tax  
12 year thereafter.

13 (bb) Amounts attributable to an ownership interest in a pass-  
14 through entity, regulated investment company, real estate  
15 investment trust, or cooperative corporation whose business  
16 activities are taxable under section 203 or would be subject to the  
17 tax under section 203 if the business activities were in this  
18 state. For purposes of this subdivision:

19 (i) "Cooperative corporation" means those organizations  
20 described under subchapter T of the internal revenue code.

21 (ii) "Pass-through" entity means a partnership, subchapter S  
22 corporation, or other person, other than an individual, that is not  
23 classified for federal income tax purposes as an association taxed  
24 as a corporation.

25 (iii) "Real estate investment trust" means that term as defined  
26 under section 856 of the internal revenue code.

27 (iv) "Regulated investment company" means that term as defined

1 under section 851 of the internal revenue code.

2 (cc) For a regulated investment company as that term is  
3 defined under section 851 of the internal revenue code, receipts  
4 derived from investment activity by that regulated investment  
5 company.

6 (dd) For fiscal years that begin after September 30, 2009,  
7 unless the state budget director certifies to the state treasurer  
8 by January 1 of that fiscal year that the federally certified rates  
9 for actuarial soundness required under 42 CFR 438.6 and that are  
10 specifically developed for Michigan's health maintenance  
11 organizations that hold a contract with this state for medicaid  
12 services provide explicit adjustment for their obligations required  
13 for payment of the tax under this act, amounts received by the  
14 taxpayer during that fiscal year for medicaid premium or  
15 reimbursement of costs associated with service provided to a  
16 medicaid recipient or beneficiary.

17 **(EE) FOR A TAXPAYER THAT PROVIDES HEALTH CARE MANAGEMENT**  
18 **CONSULTING SERVICES, AMOUNTS RECEIVED BY THE TAXPAYER AS FEES FROM**  
19 **ITS CLIENTS THAT ARE EXPENDED BY THE TAXPAYER TO REIMBURSE THOSE**  
20 **CLIENTS FOR LABOR AND NONLABOR SERVICES THAT ARE PAID BY THE CLIENT**  
21 **AND REIMBURSED TO THE CLIENT PURSUANT TO A SERVICES AGREEMENT.**

22 (2) "Insurance company" means an authorized insurer as defined  
23 in section 106 of the insurance code of 1956, 1956 PA 218, MCL  
24 500.106.

25 (3) "Internal revenue code" means the United States internal  
26 revenue code of 1986 in effect on January 1, 2008 or, at the option  
27 of the taxpayer, in effect for the tax year.

1           (4) "Inventory" means, except as provided in subdivision (e),  
2 all of the following:

3           (a) The stock of goods held for resale in the regular course  
4 of trade of a retail or wholesale business, including electricity  
5 or natural gas purchased for resale.

6           (b) Finished goods, goods in process, and raw materials of a  
7 manufacturing business purchased from another person.

8           (c) For a person that is a new motor vehicle dealer licensed  
9 under the Michigan vehicle code, 1949 PA 300, MCL 257.1 to 257.923,  
10 floor plan interest expenses for new motor vehicles. For purposes  
11 of this subdivision, "floor plan interest" means interest paid that  
12 finances any part of the person's purchase of new motor vehicle  
13 inventory from a manufacturer, distributor, or supplier. However,  
14 amounts attributable to any invoiced items used to provide more  
15 favorable floor plan assistance to a person subject to the tax  
16 imposed under this act than to a person not subject to this tax is  
17 considered interest paid by a manufacturer, distributor, or  
18 supplier.

19           (d) For a person that is a securities trader, broker, or  
20 dealer or a person included in the unitary business group of that  
21 securities trader, broker, or dealer that buys and sells for its  
22 own account, contracts that are subject to the commodity exchange  
23 act, 7 USC 1 to 27f, the cost of securities as defined under  
24 section 475(c)(2) of the internal revenue code and for a securities  
25 trader the cost of commodities as defined under section 475(e)(2)  
26 and for a broker or dealer the cost of commodities as defined under  
27 section 475(e)(2)(b), (c), and (d) of the internal revenue code,

1 excluding interest expense other than interest expense related to  
2 repurchase agreements. As used in this subdivision:

3 (i) "Broker" means that term as defined under section 78c(a)(4)  
4 of the securities exchange act of 1934, 15 USC 78c.

5 (ii) "Dealer" means that term as defined under section  
6 78c(a)(5) of the securities exchange act of 1934, 15 USC 78c.

7 (iii) "Securities trader" means a person that engages in the  
8 trade or business of purchasing and selling investments and trading  
9 assets.

10 (e) Inventory does not include either of the following:

11 (i) Personal property under lease or principally intended for  
12 lease rather than sale.

13 (ii) Property allowed a deduction or allowance for depreciation  
14 or depletion under the internal revenue code.

15 (5) "Officer" means an officer of a corporation other than a  
16 subchapter S corporation, including all of the following:

17 (a) The chairperson of the board.

18 (b) The president, vice president, secretary, or treasurer of  
19 the corporation or board.

20 (c) Persons performing similar duties to persons described in  
21 subdivisions (a) and (b).