



# Michigan Business Tax Devalues Commercial Real Estate

Michigan's commercial real estate community has been unfairly burdened under the new Michigan Business Tax (MBT) structure. In current form, the MBT devalues existing assets, punishes long-time investors and discourages new investment in commercial real estate. While Michigan attempts to recruit new business ventures, the treatment of commercial real estate under the MBT poses a significant disincentive to invest in our state. The negative effects of this tax on Michigan property will ultimately lead to declining economic growth and less tax revenue.

The Michigan Association of REALTORS®, consisting of leading practitioners from across the state, is providing a framework for modifications of the new MBT that would prove to be better tax policy for all Michigan businesses and citizens. These proposals include:

- **Eliminating the 22% MBT Surcharge**

As it stands, the MBT surcharge combined with all other inequalities in the tax devastates the commercial industry in this state. The surcharge imposes a significant disadvantage in attracting new businesses and jobs to Michigan and in retaining those we have. Its effects are felt not only by the commercial industry, but by the business community as a whole.

- **Reinstating the 10-year Investment Tax Credit carryforward**

Eliminate the MBT requirement that any Investment Tax Credit (ITC) granted under the Single Business Tax (SBT) be used in 2008 and 2009, and reinstate the 10-year carry forward for all ITC. Under the MBT, ITC not fully utilized in the year of acquisition is lost, yet businesses must pay back ITC in the year of sale whether utilized or not. A ten-year carryforward would allow most businesses to reap the intended benefit of the credit.

- **Including real estate in the definition of inventory for the purposes of "purchases from other firms"**

Real estate held for development purposes and available for sale should be treated as inventory and counted against a property owner's gross receipts, just as a manufacturer can reduce their liability through their inventory of parts and product.

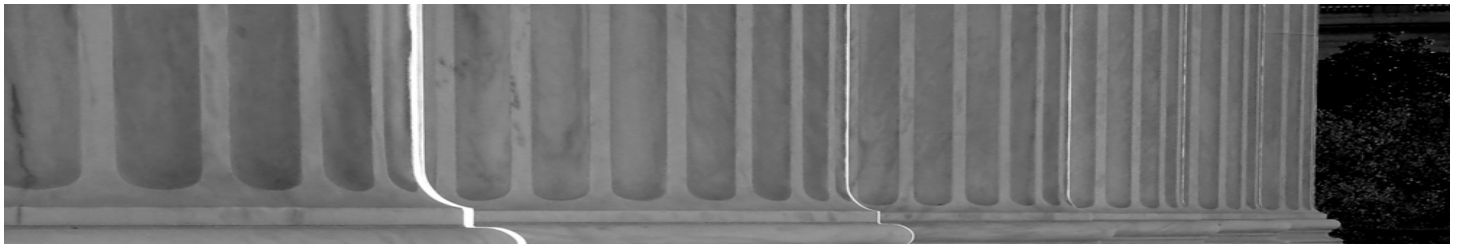
- **Allowing Common Area Maintenance (CAM) to be deducted from gross receipts in calculating the new tax**

Taxation of the CAM as part of gross receipts has a direct negative effect on net operating income (NOI) and, therefore, on the valuation of real estate. Property owners should not be taxed on receipts that represent cost reimbursements rather than rental or fee income.

- **Offering a "fresh start" for allowed depreciation on all commercial real estate beginning January 1, 2008**

Under the SBT, commercial property did not receive the benefit of depreciation. When sold under the MBT, the same property will be taxed on the difference between their federal adjusted basis and the sales price; taxed on a deduction that was never received. The basis of each property should be given a "fresh start" to allow the property's MBT gain to be calculated based on depreciation deductions actually received for state tax purposes.





## Michigan Business Tax: Pushing Businesses Out of Michigan, Putting Michigan Out of Business

Dear REALTOR® Member:

As your 2008 President, I want to call your attention to a very important issue. It relates to the new Michigan Business Tax (MBT) and its impact on commercial real estate. Many businesses have been unaware of these problems, only to come to terms with it on their first quarterly tax filing.

While some industries benefit from the MBT, many, including the commercial industry, will see dramatic tax increases. I am proud of what we have been able to do to insulate you, the member, from what the Legislature originally proposed, but the value of commercial property and the relevant income streams are still in jeopardy. The MBT "surcharge" makes a difficult situation untenable and commercial real estate values will be hurt.

On the back of this sheet you will find five issues of tremendous importance to the commercial real estate sector. Without prompt action, there is grave concern that our commercial real estate values will drop at a time when we are all particularly vulnerable.

Without revisions, the Michigan Business Tax will be a far worse job killer than the previous Single Business Tax (SBT). **Please take the time to familiarize yourself with these issues, spread the word, and keep an eye out for MAR® Calls-to-Action to contact your legislator. Also, please let the MAR® know of any commercial deals that have fallen through due to the burdensome tax at 1-800-454-7842.**

On behalf of the 27,000 members of the Michigan Association of REALTORS®, thank you for your time and consideration for Michigan's businesses. I look forward to working together with you to fight for a brighter future for Michigan's real estate market.

Sincerely,

Jeff Young  
MAR 2008 President

