The Michigan Business Tax does not meet the three criteria of a good tax system: reliability, equity, and efficiency, according to a new report from the Center for Local, State, and Urban Policy (CLOSUP).

CLOSUP, which is in the Gerald R. Ford School of Public Policy, analyzed the MBT and other tax options, and reviewed the public debate in Michigan regarding business taxation.

The MBT — which replaced the state’s Single Business Tax in 2007, but took effect in January 2008 — generates inconsistent revenue year to year, making it less reliable than the SBT, the report says.

The tax does not require taxpayers with similar income to pay the same amount. MBT also is complicated, which leads to high administrative and compliance costs, rending it inefficient, the report states.

Several plans have been proposed for reforming the MBT so it benefits all businesses. Some plans include phasing out a 21.99 percent surcharge, instituting a graduated income tax and eliminating the MBT.

Economists say a good tax system should be assessed to minimize market distortion, which occurs when taxes affect businesses’ decisions on how to allocate resources, such as hiring vs. investing in capital.

“Distortions, in effect, drive up costs for consumers and businesses,” says Tamara Wilder, a research fellow at CLOSUP.

Michigan’s business tax consists of a business income tax, a gross receipts tax (a tax on total receipts from goods and services sold) and the surcharge. Wilder says the surcharge, which was added to reduce the state budget deficit, has been considered a burden for many firms.

The report also noted that MBT critics say owners of capital might relocate to low-tax states to escape the tax burden. Proponents of the state tax point to greater relief for some small businesses and manufacturers, and rewards for having employees and property in Michigan.

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