



*"For Truth in Taxation
and Job Creation"*

Michigan FairTax Association
PO Box 703
Sterling Heights, MI 48311-0703

Ph: 586-871-7147
Web: www.mifairtax.org
Email: info@mifairtax.org

HOW THE MI FAIRTAX AFFECTS MICHIGAN EMPLOYERS

How the MI Fair Tax Proposal Benefits MI Home Builders & Contractors

The Michigan FairTax will replace the Michigan Business Tax (MBT), the Personal Property Tax, and the Michigan Income Tax with only a Sales Tax. Michigan citizens will pay an additional 3.75 on whatever they buy, but they will get to keep the 4.35 cents on every dollar they are currently paying in payroll taxes. They won't have to file or pay Michigan Income Tax; they will only pay tax on what they purchase. It's really that simple.

Michigan Businesses will benefit in many ways. Business to business transactions will not be taxed. Anything that goes into manufacturing or is necessary to performing a service is considered a business to business transaction. Thus, the attorney or accountant performing corporate work wouldn't be taxed, but creating a will or doing an individual tax return would be. Only the final sale of a product or the final purchase of the service would be taxed. The MI FairTax would stop the double, triple, and cascading taxation which goes on all the time in Michigan. The new MBT plan is still a gross receipts tax and taxes almost every step in the process of a sale, and the Personal Property Tax taxes all heavy equipment, machinery, tools, as well as office furniture, equipment, computers, copiers, phone systems, etc. over and over again every year. The MI FairTax will stop the multiple taxation of both the consumer and Michigan businesses.

Michigan home builders will no longer pay sales tax on all the products that go into the building of a home or spec-home and have to wait until that home is built or sold before they can be reimbursed. The sales tax will be paid at the time of sale, not before. In the sale of a home, home builders and realtors would simply have to track and list the amount of sales tax, it would be sent into the state of Michigan by whoever handled the closing. Home builders will no longer have to track or subtract state income taxes from their employee's paychecks or send those payroll taxes to the State of Michigan. They will no longer have to track and pay someone to figure out their SBT, Personal Property or State Income Tax liability. They will no longer be penalized for investing in their business when they purchase new equipment and machinery which allows them to do more work and hire more people. They will no longer be taxed simply because they generated over \$350,000 in receipts with no regard as to whether they made a profit or loss.

The Michigan FairTax will differ only slightly from the National version as it will continue to tax all titled products such as homes, cars, boats and trailers. This continues the balanced playing field which exists today and would not damage the home building, auto, and boat and trailer industry. The Michigan FairTax would replace the most confusing, difficult to comply with and least competitive state taxation system in the nation with the simplest, easiest, least expensive and most competitive. The more business Michigan can attract the more jobs will be created. The more jobs that are created the more people will be able to afford to purchase a home. The more people who can afford to purchase a home the more homes that will need to be built. Now what could be fairer than that?

How the MI Fair Tax Proposal Would Affect Realtors Home Sales

Many realtors have expressed initial concern about the effect the Michigan FairTax would have on home sales assuming it would be an additional 9.75 percent onto the purchase of a home. If this were the case I would have serious concerns about the MI FairTax as well, but this is not how the MI FairTax works. Currently a number of taxes are incurred with every sale of a house, whether new or old. Although you may not see the sales tax (which the builder has already paid) it is definitely included in the total price of the home. In addition to the 6 percent sales tax on the materials used to build the new home—materials which account for half the value of the home—a Real-Estate Transfer Tax (RTT) must be paid as well. In the example given below of a new home that costs \$200,000 to build, not counting the value of the land, there would be a sales tax of \$6,000, a RRT of \$1,800 and a state income tax of 4.35 percent on every dollar spent on the purchase (which amounts to \$8,700)—all told, a grand total of \$16,500 in taxes. For that same house under the MI Fair Tax system, the RRT and the income tax factor would be eliminated; instead labor and materials would be taxed under the MI FairTax. The difference in taxes between the two systems would only be \$3000: with a 30 year mortgage at 7 percent that difference would approximate to \$15 a month. One of the purpose of the monthly pre-bate is to de-tax necessities which rebates approximately \$85 per individual, which more than compensates citizens for this slight increase in housing.

When purchasing a used home, the labor and materials would not be taxed again; however, the appreciation value of the house, minus the out-of-pocket improvements by the owner and a 2 percent straight inflation rate, would be taxed. The RTT would remain on the sale of a used home. Thus, continuing with the example below, a home purchased for \$250,000 and then resold for \$350,000 leaves, after the subtractions, \$25,251 to be taxed. The sales tax at 9.75 percent would be \$2,462 plus \$2,800 (RTT) equaling \$5,262 owed in state taxes. However, the consumer has 4.35 cents additional buying power on every purchase dollar, which amounts to \$15,225, thus wiping out the effect of the tax.

In the sale of a home both realtors and homebuilders will only have to track and list the amount of sales tax on their commission or labor, they will not collect it from the consumer. It will be collected and sent to the state of Michigan by whoever handles the closing. Realtors, like home builders, will benefit from a more attractive and competitive taxation system that will promote growth and create jobs, which in turn creates a need for more houses and more job mobility both of which create more home sales. Realtors will no longer pay income tax on their earnings, personal property tax on their offices or gross receipts tax on their businesses. Consumers will have 4.35% more in every dollar they earn which can make the difference between being able to afford a home or purchase the home they really want. The Michigan Fair Tax Proposal will help home builders, realtors and Michigan citizens. Name one other thing that the legislature has done that could do that. Let's have real change instead of political smoke and mirrors, support the Michigan Fair Tax Proposal.

How Michigan FairTax will Effect Home Sales

New \$200,000 Home	Current	After	Difference
1) State Real-Estate Transfer Tax:	\$1,800	0	-\$1,800
2) Labor Tax:	0	\$9,750	\$9,750
3) Materials Tax:	\$6,000	\$9,750	\$3,750
4) Income Tax (on \$200,000):	\$8,700	0	-\$8,700
	\$16,500	\$19,500	\$3,000

* This assumes that the cost of a house is evenly split between labor & materials. Also the additional cost would be eliminated if the house was financed, because of the income tax savings.

Treatment of a Home Resale:

- 1) The State Real-Estate Transfer Tax will be applied.
- 2) The labor and materials will not be taxed again.
- 3) The sales tax will be applied to the appreciated value minus out of pocket expenses by the seller and minus a flat 2 percent per year for each year the house was owned to offset inflation.

Example:

Selling Price (\$350,000) minus Original Purchase Price (\$250,000) = \$100,000

Original Price (\$250,000) plus a 2 percent inflation for 10 years (length house was owned) = \$304,749

Appreciated Value (\$100,000) minus Appreciated Value due to 2 percent inflation (\$54,749) = \$45,251

Net Appreciated Value (\$45,251) minus Out-of-Pocket Improvements by the owner (\$20,000) = \$25,251

The sales tax applied to the \$25,251 at 9.75 percent equals \$2,462; this, plus the \$2,800 (RTT) = \$5,262 owed in state taxes.

However, the additional income tax savings of 4.35 cents on every purchase dollar, which amounts to \$15,225, more than wipes out the entire tax. This buying power is further escalated if house is financed.

MI FairTax and the Banking Industry

The Michigan FairTax will tax some banking services purchased by consumers, but would not tax business and commercial services. For example, banking services provided to home builders, accountants, retail stores, or commercial accounts will not be taxed. Bank services to consumers will be. Only the final product or service to a consumer is taxed. Business to business taxes are not taxed under the Michigan Fair Tax proposal. Banks would no longer have to pay the new Michigan Business Tax (MBT), which increased by 25% the banking industries Michigan tax liability. The MBT, which is comprised of personal property tax, gross receipts tax, and an alternative business income tax, would be eliminated along the Michigan income tax.

Interest, dividends and capital gains will not be taxed on banking instruments such as savings and checking accounts, money markets, CDs, mutual funds, or any other bank savings vehicle, nor would banks have to track and provide all that information to the state of Michigan, as they do now. This means that banks will retain a larger percentage of their deposited assets and earnings. They will also save on internal expenses such as Michigan Payroll Tax and filings, as sales tax would relate to bank mortgages. I talked with the Michigan Bankers Association, who said that there should be no problem in rolling sales tax into a mortgage. It's currently being done in other states, and is already on many settlement forms.

The Michigan Fair Tax Proposal would also open up a new opportunity for banks to increase deposits on hand from 1 to 30 days. As is the case now, most retail businesses deposit their sales tax revenues as they come in. If banks were to offer a service to their commercial accounts, which would track and send in to the state of Michigan the required sales tax on a monthly basis, it would have an opportunity to have millions of more dollars on deposit for 1 to 30 days each month. The customer simply agrees to bring in their deposits on an agreed upon number of times each week, in turn for the bank filing and sending the sales tax into the state of Michigan. This in turn will increase the bank's ability to both borrow and loan dollars to its customers. The Michigan FairTax would be another avenue to increase deposits for all Michigan banks.

The Michigan FairTax would make Michigan's business taxation system one of the broadest, simplest, and most competitive in the nation. It will most likely attract new businesses, more jobs, and more people to our state, which would result in more banking customers, which results in more profit for our banking industry. The Michigan FairTax would act as an incentive and a draw to businesses across the nation to open up shop in Michigan.



*"For Truth in Taxation
and Job Creation"*

Michigan FairTax Association
PO Box 703
Sterling Heights, MI 48311-0703

Ph: 586-871-7147
Web: www.mifairtax.org
Email: info@mifairtax.org

The Michigan FairTax and Insurance Companies

Michigan is the only state in the union which incorporates the Insurance Industry into their overall business taxation system. Every other state applies a premiums tax as their common method of taxation. This has created problems for non-resident insurers doing business in Michigan as well as Michigan insurers doing business in other states. This situation has resulted in what has been termed retaliatory taxes and has been a problem. Up to this point in time, the Michigan Insurance Industry has enjoyed numerous tax credits, deductions and exemptions, which have made it possible to be competitive at least within our state borders. However, with the elimination of the Single Business Tax (SBT) and the new Personal Property Tax (PPT) credits have all changed as of Jan 1, 2008 with the passage of the new Michigan Business Tax (MBT).

Governor Granholm went after the Insurance Industry in her first plan in 2005 and wanted to double their taxes. The new MBT will increase the cost of doing business in Michigan by as much as 25%. Governor Granholm has tried to increase taxes on the Insurance Industry Michigan Income Tax and eliminate legitimate business deductions ever since she entered office. In 2007, the Governor wanted to pass a sales tax on services on top of all the other taxes, as well as tax business-to-business transactions.

The Michigan FairTax would **not** incorporate insurance companies into the business tax structure. It would apply a 1.1 percent premium tax, which is more than the 1.0375% they were paying, but less than the 1.25% they are required to pay under the new MBT. This would make it easier for insurance companies and agents to do business inside and outside state borders and deal with the retaliatory tax problem much more efficiently. Thus, the Michigan FairTax would be a sure thing and take the target off the backs of the Michigan Insurance Industry. It would not increase cost of doing business in Michigan by Insurance Companies, nor will it increase business taxes on insurance agents, or the cost of insurance on consumers. The Michigan Fair Tax Proposal will lower the cost of doing business, both in rate and in compliance. The Michigan Fair Tax Proposal will keep the Michigan Insurance Industry competitive and provide stability by locking in the rate of taxation into the constitution and preventing constant tax increases.