

# Tax changes for sma businesses to note

By Dan Hoops  
Guest Columnist

**A**s we move into an election year, there are a few changes in the tax law (both at the state and federal levels) that you may be interested in tracking. For the most part, our state legislators have done their jobs and given us some stability; unfortunately, our federal legislators have not. But for small businesses in Michigan, this may be a pretty good year with some of the tax changes.

So, the good news for 2012. Governor Snyder and the Michigan legislature finally repealed the Michigan Business Tax ("MBT"). The MBT was a short-lived tax that replaced the Single Business Tax ("SBT"). The MBT and SBT were controversial taxes because they were (a) difficult to comply with, (b) taxed the income of small businesses and business owners twice, and (c) were just bad tax policy. Essentially, the MBT and SBT went outside the state tax policy axiom, which is to "tailor legislation to the federal laws."

In Michigan, we have an estate tax and individual income tax that are called "pick-up" taxes, which means that if something is taxed at the federal level, Michigan will "pick-up" a little off the top. This works well in the individual and estate tax planning world because you are, essentially, playing by the same rules at the state and federal levels. Until recently, the business taxes were another story. Our state legislative and executive branches couldn't make up their minds as to how to tax business. . . this adversely affected long-term business decisions, drove many businesses to other states and clearly hurt our state's economy.

On Jan. 1, 2012, the Michigan Corpo-

rate Income Tax (MCIT) took effect. For many small businesses in Michigan, this is a wonderful relief. The MCIT effectively taxes "C-corporations" with \$350,000 or more gross receipts only. This means that small businesses that operate as sole proprietors, partnerships, LLC's or S-corporations are not taxed by the State of Michigan. Essentially, this is how the federal tax system is designed and many consider this the equitable and fair way to tax business. It is smart tax policy.

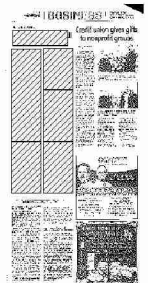
Small business should also rejoice with the Small Business Health Care Tax Credit, included as part of Congress' Affordable Care Act. This is a credit for small business owners. To qualify for this relief, a business must have 25 or fewer full-time employees whose average income is \$50,000 or less, and the business must pay at least half of its employee health insurance premiums. For qualifying business owners, the credit is a "sliding scale" that tops out at 35% in 2012, meaning the credit will benefit "smaller" small business moreso than it would for "larger" small business.

The IRS released its 2012 inflation-affected items for the year. The Earned Income Tax Credit for 2012 will be \$5,891, the maximum deduction for medical savings accounts for out-of-pocket expenses will be \$4,200 (self-only) and \$7,650 (family coverage), the estate tax credit amount for 2012 is \$5,120,000, transportation benefits (transit passes, parking) will be \$240, and deductible mileage rates are \$.55 (business mileage), \$.23 (medical or moving mileage), and \$.14 (per mile for charitable organizations).

Now, for the rest of the federal tax story. Politics. We have one more year to see what is going to happen with the estate tax and whether or not our Congress will allow it to slip from a tax on estates in excess of \$5 million to estates of \$1,000,000 in 2013. As far as some of the remaining "Bush Tax Cuts",



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those two may or may not be around by 1/1/2013. They kicked the can on these issues last year, after waiting until the eleventh hour, will they do it again at the end of the year?

The payroll tax (FICA) relief from 2011 was extended. . . until February 29, 2012. I don't know what to say, but "please remember to vote in the November elections". What a mess for payroll services and departments across the country. For now, employees will only have 5.65% of their paychecks withheld for the FICA and this may or may not go up to 7.65% in two months.

Finally, with this being an election year, most economic policies from both major parties will use tax policy changes to provide incentives in business and personal behaviors. Just which policies are the "best" is anyone's guess; higher taxes on the wealthiest Americans? Tax cuts for the middle class? Renewable credits for business? No one can say for certainty what works best, until many years after the fact. However, providing a long-term plan that people and business can rely on is something that

works.

As we all get geared up to file our returns for the past year, there are plenty of us that do need to think about the upcoming year. Unfortunately, the uncertainty in Washington is unlike the uncertainty in life; we can at least control our own personal destinies, right? It will be an interesting 2012 to say the least, let's hope that our elected officials in Congress can take a lesson from Lansing and give us a ray of hope for certainty in our taxes. But, this is only my perspective.

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