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**To:** AGC of Michigan Members  
**From:** Bart Carrigan  
**Date:** June 20, 2007  
**Subject:** ACT NOW – GET MAD – GET INVOLVED!!!!  
Flaw in proposed Michigan’s Business Tax Will Cause Tax  
Pyramiding! Will Kill Construction in Michigan!

The compromise business tax proposal reached last Tuesday has a serious flaw that will kill construction in Michigan. Michigan construction costs will rise dramatically.

The flaw is the Tax Base which calls for 2/3 margin tax (gross receipts) with a rate approximately .8% and 1/3 business income tax with a rate approximately 5%. This will lead to an increase in the cost of construction of 2-3% and will put Michigan at a competitive disadvantage with other states in attracting new business.

**Most AGC member tax bills will increase 500% if the proposed tax bill is not corrected!!!**

There are a number of credits, but they will not be enough to help; a small business treatment for firms with gross receipts under \$18-20 million does exist. However, the gross receipts will include all your subcontractors, so you may not qualify. In addition, the adverse impact on our industry as a whole outweighs the advantages of the small business treatment.

The flaw is in the 2/3 margin tax which they define as sales minus purchase of tangible property. As proposed in the new tax bill, there is no provision for the contractor to subtract from sales the subcontracts on the project; every subcontractor, supplier and service provider will pay on all gross receipts.

This results in tax pyramiding. On a \$10 million project, they state will have a tax base 2.5-3.3 times the contract amount, or \$25-\$33 million. We have asked Treasury, House and Senate staff for exact formulas and definitions and they have refused to cooperate.

For now, all you can do is use the attached one page summary to assess the impact. Please assess the impact on your company and **call your State Senator** (<http://senate.michigan.gov/index.htm>) AGC has developed draft legislative language that should help (attached). McGraw-Hill also provided an analysis which is attached for your review.