Michigan Tax Reform Proposal

Overall Tax and Budget Plan

- Over $1.6 billion in spending cuts and structural reforms
- $300 million to finally start addressing unfunded OPEB liability
- A simple, fair, and efficient tax system with an $800+ million net tax cut over three years and significant business tax relief

Corporate Income Tax

Making Michigan Competitive

- Replaces MBT with a 6% corporate income tax
- No gross receipts tax
- No surcharge
- No complicated calculations
- Eliminates most credits, deductions, and exemptions
- No winners at the expense of losers

Simple

- Take federal taxable income (with a couple of adjustments, if applicable)
- Multiply by 6%
- If you're a small business, multiply by 1.8% instead
- Insurance companies and financial institutions continue to pay their own tax as under the MBT

Fair

- Only applies to companies filing as C corps—pass-through entities like S corps, LLCs, partnerships and sole proprietors already pay tax on business income under the personal income tax
- Only applies to profits—if you didn't make money, you don't have to pay tax
- Consistent with tax treatment of personal income
- Eliminates the tax preferences that create winners and losers under the current system

Efficient

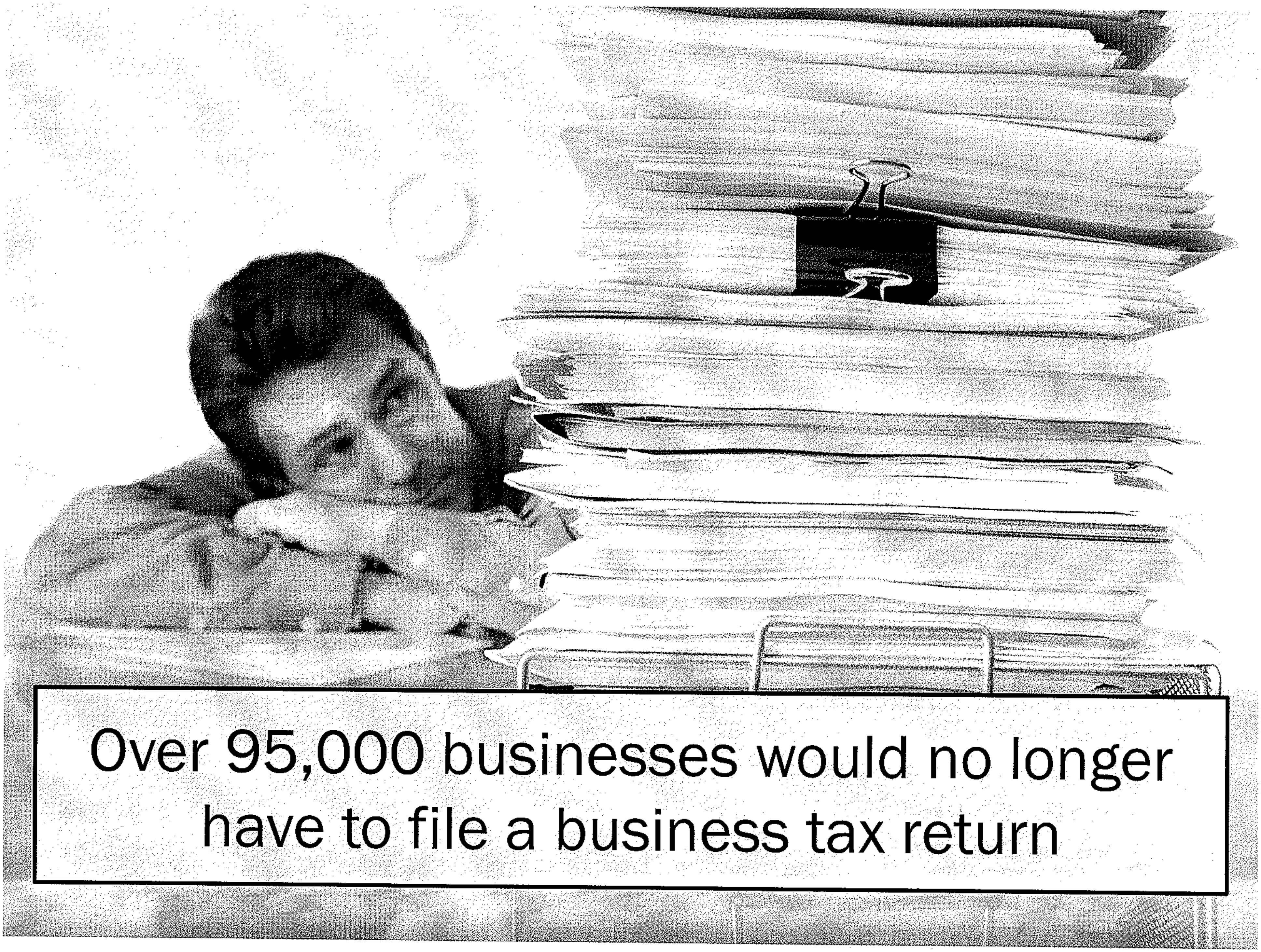
- A simple tax means the costs of compliance and administration are low
- The elimination of tax preferences means the state will no longer penalize businesses that don't have a voice in Lansing
- All businesses will have an equal opportunity to prosper and grow

Promises Kept and Increased Transparency

- Previously-awarded incentives such as MEGA, Brownfield, Film, and advanced battery credits will be honored

- In the future, all economic development incentives will be subject to the annual appropriations process and the same level of scrutiny that all other spending decisions receive


$1.7 billion in needed tax relief
to Michigan job providers
OPEN


Over 95,000 businesses would no longer
have to file a business tax return

Other Side of the Ledger

Eliminating preferences/preserving rate reduction

- The proposal generates $1.46 billion in revenue by eliminating most tax preferences under the individual income tax
- Existing preferences have unfairly distorted the tax burden under the personal income tax and created a system of winners and losers
- All taxpayers would see a reduction in the income tax rate from 4.35% to 4.25% on 1/1/13. This reduction is currently scheduled to occur on 10/1/11

Retained Provisions

- Generally applicable tax relief, such as the personal exemption, 100% social security exemption, and homestead property tax credit would be retained

- Specific additional relief for military personnel, veterans, and individuals with disabilities would also be retained

- Federal EITC recipients would be able to claim a 6% state EITC

Homestead Credit Changes

- The Homestead Credit would be targeted more at low income individuals
- Seniors with incomes under $20,000 would receive a 100% credit while non-seniors would continue to receive a 60% credit. (Low-income non-seniors could also receive the EITC)
- The senior credit would phase down to 60% between $20,000 and $30,000
- The credit would phase out entirely for incomes between $41,000 and $50,000
- Taxpayers with homes exceeding a taxable value of $135,000 would not be eligible for the credit

New retirement income/senior exemptions

- The plan would protect current senior pensioners, while gradually transforming the current retirement income exemption into an exemption that benefits all seniors 67+
- Taxpayers who are 67 or older by 12/31/12 (those born before 1946) would not see a change to their retirement income exemptions (100% held harmless)
- Those who are 60-66 by 12/31/12 (those born in 1946 through 1952) would receive a reduced $20,000 single/$40,000 joint retirement income exemption. Upon turning 67, this 20/40 exemption could be applied against any income, regardless of source. In this category, approximately 65% of taxpayers would continue to pay no tax on their retirement income
- People younger than 60 at the end of 2012 would receive a new $20,000 single/$40,000 joint senior exemption upon turning 67. The exemption could be applied against any income and could be taken in lieu of the social security exemption and the personal exemption

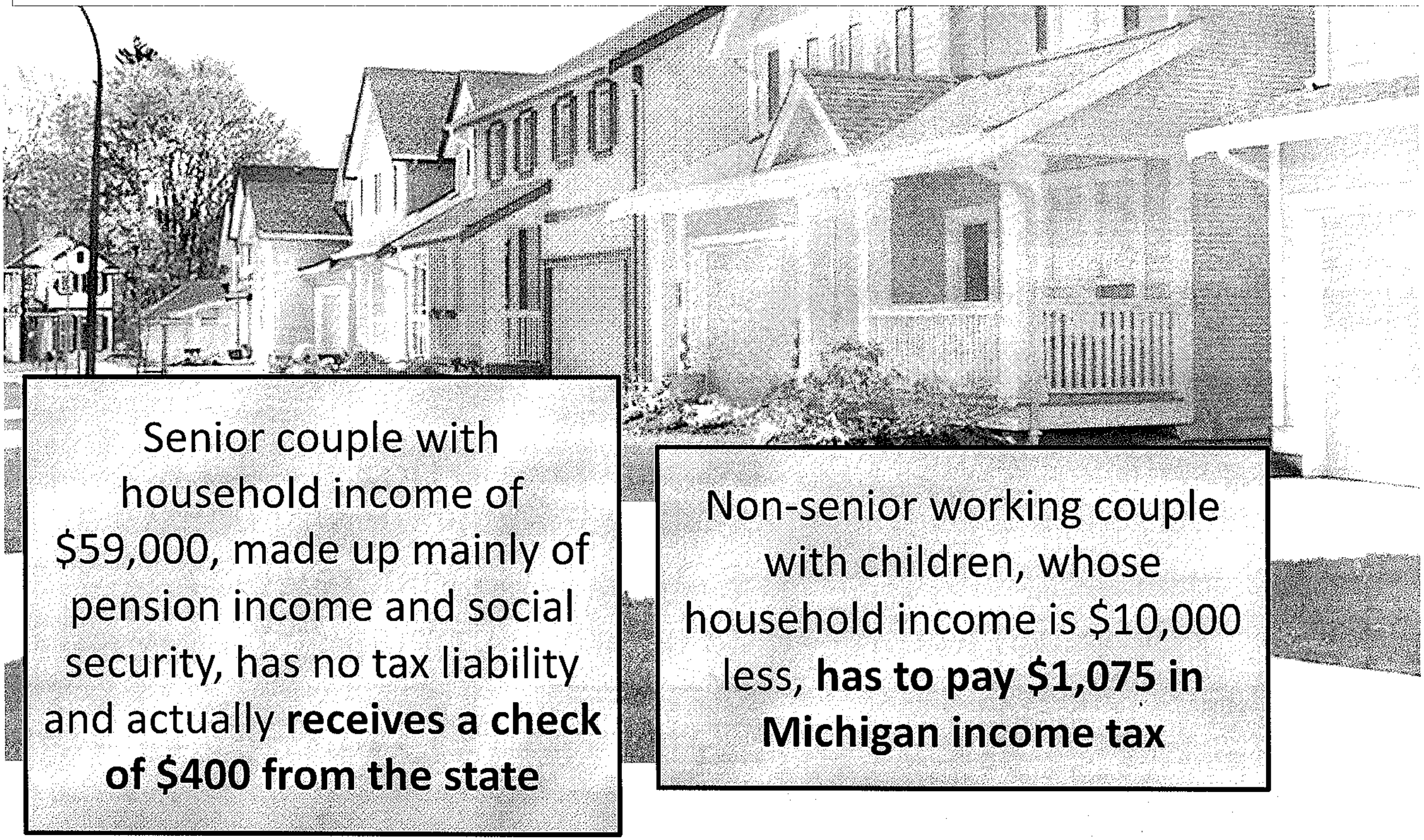
Revenue Stability

Overall revenues from the corporate income tax and the broader-based personal income tax would be at least as stable as those generated by the MBT and personal income tax currently

It’s a matter of fairness

- Would eliminate inequities in the current retirement income exemption
- When fully implemented, every senior 67+ would receive at least a $20,000 single/$40,000 joint exemption, which could be applied against any income
- Working and non-working seniors would be treated the same
- Seniors who do not receive social security would still benefit
- Current seniors would be protected

The Inequity of Fully Exempting Retirement Income – Example from Real Tax Returns



Senior couple with household income of $59,000, made up mainly of pension income and social security, has no tax liability and actually **receives a check of $400 from the state**

Non-senior working couple with children, whose household income is $10,000 less, **has to pay $1,075 in Michigan income tax**

It's not where you started; it's where you land…

With the new senior exemption, the average senior couple 67+ would have no tax liability until their income exceeded $44,000

It's not where you started; it's where you land…

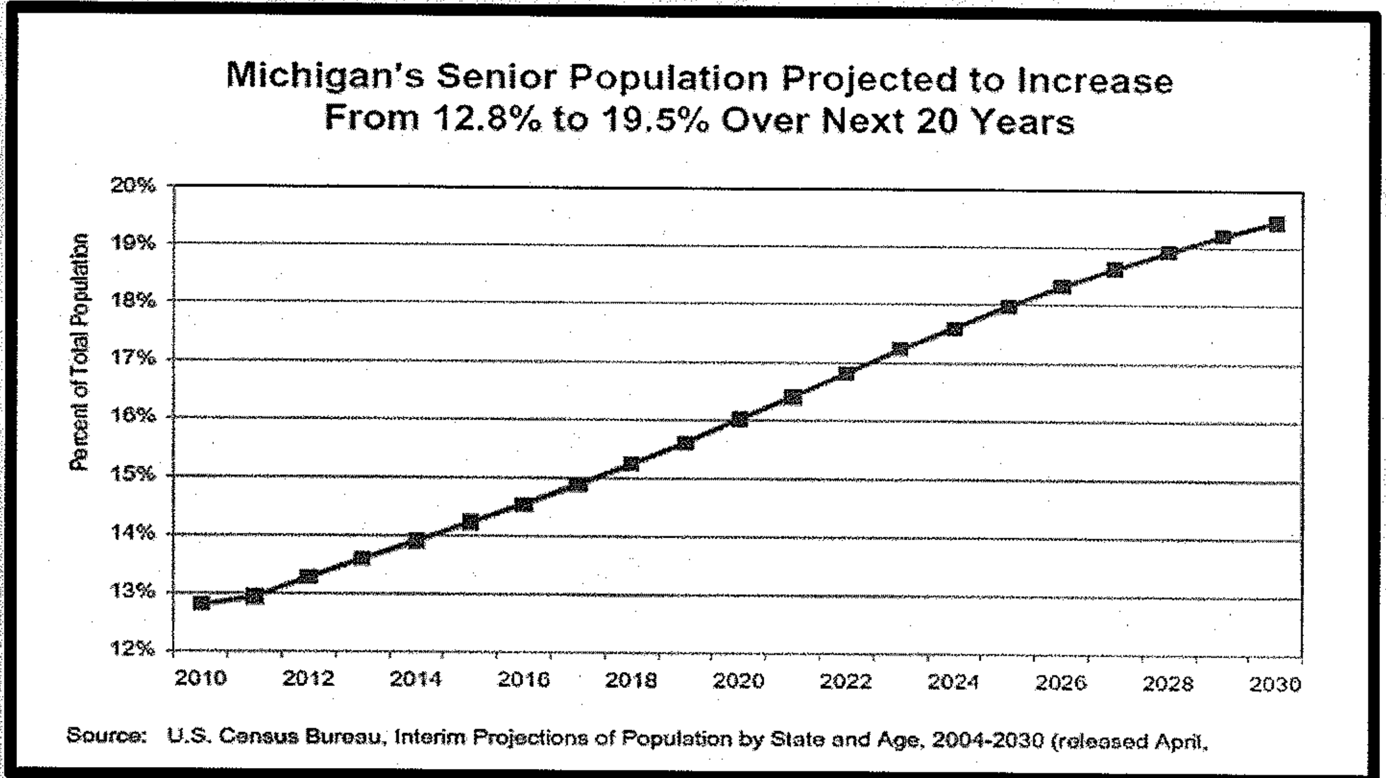
Even after these changes, Michigan would have the 14th lowest personal income tax burden among the 41 states with a broad-based personal income tax

It's not where you started; it's where you land

The budget consequences of continuing to fully exempt retirement income

- Michigan's retirement income exemption creates a $930 million hole in our income tax collections
- As the state ages, this hole will grow significantly, placing added stress on the ability of our income tax system to meet budget demands
- Seniors currently account for 16.1% of Michigan resident AGI (which does not include federally exempt social security) but only pay 3% of the income tax paid by Michigan residents
- With fewer taxpayers supporting their equitable share of public services, programs will have to be reduced or eliminated, and/or taxes will have to be increased
- That could negatively impact both seniors, who are relatively high users of services, and younger taxpayers, who currently generate 97% of all income tax revenue paid by Michigan residents

Michigan's Aging Population



Over the next 20 years, Michigan's senior population is expected to increase from 12.8% to 19.5%

The Inequity of Fully Exempting Retirement Income - By the Numbers

- Michigan is one of only four states that impose an income tax that exempt most or all retirement income from state income tax
- In 2008, on average, seniors with under $50,000 in AGI had no income tax liability and received money back from the state
- In comparison, non-seniors making between $45,001 and $50,000 in AGI had an average income tax liability of $1,300
- In total, the net effective tax rate for all seniors based on AGI in 2008 was 0.48% compared to 2.95% for non-seniors
- To put that into perspective, a senior with AGI between $175,001 and $200,000 paid the same effective tax rate as a non-senior making between $35,001 and $40,000
- AGI does not include roughly $20 billion in federally exempt social security benefits that MI seniors receive

It's not where you started; it's where you land…

Among states that have income taxes, the proposed senior exemption would be 8th most generous in the nation

It's not where you started; it's where you land…

Michigan's personal income tax rate would continue to be extremely competitive relative to its neighbors

Midwest States	Individual Income Tax
Illinois	5.00%
Indiana	3.40%
Michigan	**4.25%**
Minnesota	5.35% - 7.85%
Ohio	0.618% - 6.24%
Wisconsin	4.6% - 7.75%

It's not where you started; it's where you land…

According to the Council on State Taxation model, this proposal would move Michigan from 30th to 16th lowest state and local business tax burden

STATE OF MICHIGAN
GOVERNOR

It's not where you started; it's where you land…

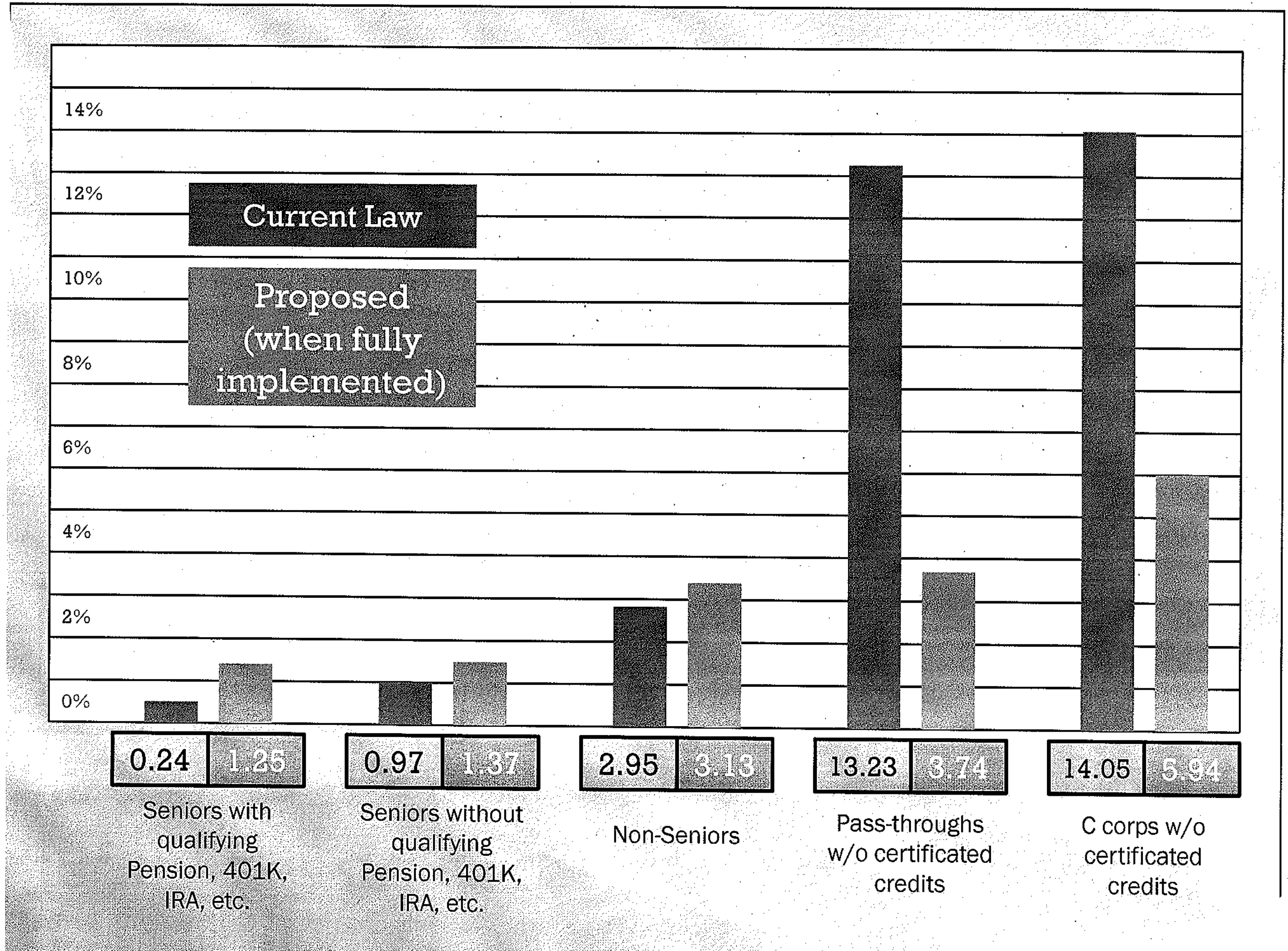
Michigan would have the lowest corporate income tax rate in the Midwest

Midwest States	Corporate Income Tax
Illinois	9.50%
Indiana	8.50%
Michigan	**6.00%**
Minnesota	9.80%
Ohio	CAT
Wisconsin	7.90%

Why we're doing this

- To create an environment for job growth
- To treat all individuals and businesses fairly
- To simplify our tax system and get back to basics (Filling out a tax return shouldn't require an advanced degree)
- To firmly anchor our tax laws to fixed core principles (Because consistency provides long-term value to all businesses and acts as a natural defense against those seeking special treatment for short-term gain)
- To put Michigan back on the map

Taxpayer Effective Rates


14%
12%
10%
8%
6%
4%
2%
0%
Current Law
Proposed (when fully implemented)
0.24
1.25
Seniors with qualifying Pension, 401K, IRA, etc.
0.97
1.37
Seniors without qualifying Pension, 401K, IRA, etc.
2.95
3.13
Non-Seniors
13.23
3.74
Pass-throughs w/o certificated credits
14.05
5.94
C corps w/o certificated credits

Business Tax Cut as a Percentage of Total Business Taxes

Total taxes paid by Michigan businesses (current law)	$13.50 billion
Total taxes paid by Michigan businesses (proposal—before certified credits)	$12.33 billion
Tax cut as a percentage of total business taxes (before certified credits)	8.7%
Total taxes paid by Michigan businesses (proposal—including certified credits)	$11.83 billion
Tax cut as a percentage of total business taxes (including certified credits)	12.4%