

SUBSTITUTE FOR
HOUSE BILL NO. 5797

A bill to amend 2007 PA 36, entitled
"Michigan business tax act,"
by amending section 111 (MCL 208.1111), as amended by 2007 PA 207.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1 Sec. 111. (1) "Gross receipts" means the entire amount
2 received by the taxpayer from any activity whether in intrastate,
3 interstate, or foreign commerce carried on for direct or indirect
4 gain, benefit, or advantage to the taxpayer or to others except for
5 the following:

6 (a) Proceeds from sales by a principal that the taxpayer
7 collects in an agency capacity solely on behalf of the principal
8 and delivers to the principal.

1 (b) Amounts received by the taxpayer as an agent solely on
2 behalf of the principal that are expended by the taxpayer for any
3 of the following:

4 (i) The performance of a service by a third party for the
5 benefit of the principal that is required by law to be performed by
6 a licensed person.

7 (ii) The performance of a service by a third party for the
8 benefit of the principal that the taxpayer has not undertaken a
9 contractual duty to perform.

10 (iii) Principal and interest under a mortgage loan or land
11 contract, lease or rental payments, or taxes, utilities, or
12 insurance premiums relating to real or personal property owned or
13 leased by the principal.

14 (iv) A capital asset of a type that is, or under the internal
15 revenue code will become, eligible for depreciation, amortization,
16 or accelerated cost recovery by the principal for federal income
17 tax purposes, or for real property owned or leased by the
18 principal.

19 (v) Property not described under subparagraph (iv) that is
20 purchased by the taxpayer on behalf of the principal and that the
21 taxpayer does not take title to or use in the course of performing
22 its contractual business activities.

23 (vi) Fees, taxes, assessments, levies, fines, penalties, or
24 other payments established by law that are paid to a governmental
25 entity and that are the legal obligation of the principal.

26 (c) Amounts that are excluded from gross income of a foreign
27 corporation engaged in the international operation of aircraft

1 under section 883(a) of the internal revenue code.

2 (d) Amounts received by an advertising agency used to acquire
3 advertising media time, space, production, or talent on behalf of
4 another person.

5 (E) AMOUNTS RECEIVED BY A NEWSPAPER TO ACQUIRE ADVERTISING
6 SPACE NOT OWNED BY THAT NEWSPAPER IN ANOTHER NEWSPAPER ON BEHALF OF
7 ANOTHER PERSON. THIS SUBDIVISION DOES NOT APPLY TO ANY
8 CONSIDERATION RECEIVED BY THE TAXPAYER FOR ACQUIRING THAT
9 ADVERTISING SPACE.

10 (F) ~~(e)~~—Notwithstanding any other provision of this section,
11 amounts received by a taxpayer that manages real property owned by
12 a third party that are deposited into a separate account kept in
13 the name of that third party and that are not reimbursements to the
14 taxpayer and are not indirect payments for management services that
15 the taxpayer provides to that third party.

16 (G) ~~(f)~~—Proceeds from the taxpayer's transfer of an account
17 receivable if the sale that generated the account receivable was
18 included in gross receipts for federal income tax purposes. This
19 subdivision does not apply to a taxpayer that during the tax year
20 both buys and sells any receivables.

21 (H) ~~(g)~~—Proceeds from any of the following:

22 (i) The original issue of stock or equity instruments.

23 (ii) The original issue of debt instruments.

24 (I) ~~(h)~~—Refunds from returned merchandise.

25 (J) ~~(i)~~—Cash and in-kind discounts.

26 (K) ~~(j)~~—Trade discounts.

27 (L) ~~(k)~~—Federal, state, or local tax refunds.

1 (M) ~~(I)~~—Security deposits.

2 (N) ~~(m)~~—Payment of the principal portion of loans.

3 (O) ~~(n)~~—Value of property received in a like-kind exchange.

4 (P) ~~(e)~~—Proceeds from a sale, transaction, exchange,
5 involuntary conversion, or other disposition of tangible,
6 intangible, or real property that is a capital asset as defined in
7 section 1221(a) of the internal revenue code or land that qualifies
8 as property used in the trade or business as defined in section
9 1231(b) of the internal revenue code, less any gain from the
10 disposition to the extent that gain is included in federal taxable
11 income.

12 (Q) ~~(p)~~—The proceeds from a policy of insurance, a settlement
13 of a claim, or a judgment in a civil action less any proceeds under
14 this subdivision that are included in federal taxable income.

15 (R) ~~(q)~~—For a sales finance company, as defined in section 2
16 of the motor vehicle sales finance act, 1950 (Ex Sess) PA 27, MCL
17 492.102, and directly or indirectly owned in whole or in part by a
18 motor vehicle manufacturer as of January 1, 2008, and for a person
19 that is a broker or dealer as defined under section 78c(a)(4) or
20 (5) of the securities exchange act of 1934, 15 USC 78c, or a person
21 included in the unitary business group of that broker or dealer
22 that buys and sells for its own account, contracts that are subject
23 to the commodity exchange act, 7 USC 1 to 27f, amounts realized
24 from the repayment, maturity, sale, or redemption of the principal
25 of a loan, bond, or mutual fund, certificate of deposit, or similar
26 marketable instrument provided such instruments are not held as
27 inventory.

1 (S) ~~(r)~~—For a sales finance company, as defined in section 2
2 of the motor vehicle sales finance act, 1950 (Ex Sess) PA 27, MCL
3 492.102, and directly or indirectly owned in whole or in part by a
4 motor vehicle manufacturer as of January 1, 2008, and for a person
5 that is a broker or dealer as defined under section 78c(a)(4) or
6 (5) of the securities exchange act of 1934, 15 USC 78c, or a person
7 included in the unitary business group of that broker or dealer
8 that buys and sells for its own account, contracts that are subject
9 to the commodity exchange act, 7 USC 1 to 27f, the principal amount
10 received under a repurchase agreement or other transaction properly
11 characterized as a loan.

12 (T) ~~(s)~~—For a mortgage company, proceeds representing the
13 principal balance of loans transferred or sold in the tax year. For
14 purposes of this subdivision, "mortgage company" means a person
15 that is licensed under the mortgage brokers, lenders, and servicers
16 licensing act, 1987 PA 173, MCL 445.1651 to 445.1684, or the
17 secondary mortgage loan act, 1981 PA 125, MCL 493.51 to 493.81, and
18 has greater than 90% of its revenues, in the ordinary course of
19 business, from the origination, sale, or servicing of residential
20 mortgage loans.

21 (U) ~~(t)~~—For a professional employer organization, any amount
22 charged by a professional employer organization that represents the
23 actual cost of wages and salaries, benefits, worker's compensation,
24 payroll taxes, withholding, or other assessments paid to or on
25 behalf of a covered employee by the professional employer
26 organization under a professional employer arrangement.

27 (V) ~~(u)~~—Any invoiced items used to provide more favorable

1 floor plan assistance to a person subject to the tax imposed under
2 this act than to a person not subject to this tax and paid by a
3 manufacturer, distributor, or supplier.

4 (W) ~~(v)~~—For an individual, estate, partnership organized
5 exclusively for estate or gift planning purposes, or trust
6 organized exclusively for estate or gift planning purposes, amounts
7 received other than those from transactions, activities, and
8 sources in the regular course of the taxpayer's trade or business,
9 including the following:

10 (i) Receipts from tangible and intangible property if the
11 acquisition, rental, management, or disposition of the property
12 constitutes integral parts of the taxpayer's regular trade or
13 business operations.

14 (ii) Receipts received in the course of the taxpayer's trade or
15 business from stock and securities of any foreign or domestic
16 corporation and dividend and interest income.

17 (iii) Receipts derived from isolated sales, leases, assignment,
18 licenses, divisions, or other infrequently occurring dispositions,
19 transfers, or transactions involving property if the property is or
20 was used in the taxpayer's trade or business operation.

21 (iv) Receipts derived from the sale of a business.

22 (v) Receipts excluded from gross receipts under this
23 subsection for an individual, estate, partnership organized
24 exclusively for estate or gift planning purposes, or trust
25 organized exclusively for estate or gift planning purposes include,
26 but are not limited to, the following:

27 (A) Personal investment activity, including interest,

1 dividends, and gains from a personal investment portfolio or
2 retirement account.

3 (B) Disposition of tangible, intangible, or real property held
4 for personal use and enjoyment, such as a personal residence or
5 personal assets.

6 (2) "Insurance company" means an authorized insurer as defined
7 in section 106 of the insurance code of 1956, 1956 PA 218, MCL
8 500.106.

9 (3) "Internal revenue code" means the United States internal
10 revenue code of 1986 in effect on January 1, 2008 or, at the option
11 of the taxpayer, in effect for the tax year.

12 (4) "Inventory" means, except as provided in subdivision (e),
13 all of the following:

14 (a) The stock of goods held for resale in the regular course
15 of trade of a retail or wholesale business, including electricity
16 or natural gas purchased for resale.

17 (b) Finished goods, goods in process, and raw materials of a
18 manufacturing business purchased from another person.

19 (c) For a person that is a new motor vehicle dealer licensed
20 under the Michigan vehicle code, 1949 PA 300, MCL 257.1 to 257.923,
21 floor plan interest expenses for new motor vehicles. For purposes
22 of this subdivision, "floor plan interest" means interest paid that
23 finances any part of the person's purchase of new motor vehicle
24 inventory from a manufacturer, distributor, or supplier. However,
25 amounts attributable to any invoiced items used to provide more
26 favorable floor plan assistance to a person subject to the tax
27 imposed under this act than to a person not subject to this tax is

1 considered interest paid by a manufacturer, distributor, or
2 supplier.

3 (d) For a person that is a broker or dealer as defined under
4 section 78c(a)(4) or (5) of the securities exchange act of 1934, 15
5 USC 78c, or a person included in the unitary business group of that
6 broker or dealer that buys and sells for its own account, contracts
7 that are subject to the commodity exchange act, 7 USC 1 to 27f, the
8 cost of securities as defined under section 475(c)(2) of the
9 internal revenue code and the cost of commodities as defined under
10 section 475(e)(2)(b), (c), and (d) of the internal revenue code,
11 excluding interest expense other than interest expense related to
12 repurchase agreements.

13 (e) Inventory does not include either of the following:

14 (i) Personal property under lease or principally intended for
15 lease rather than sale.

16 (ii) Property allowed a deduction or allowance for depreciation
17 or depletion under the internal revenue code.

18 (5) "Officer" means an officer of a corporation other than a
19 subchapter S corporation, including all of the following:

20 (a) The chairperson of the board.

21 (b) The president, vice president, secretary, or treasurer of
22 the corporation or board.

23 (c) Persons performing similar duties to persons described in
24 subdivisions (a) and (b).

25 Enacting section 1. This amendatory act is retroactive and
26 effective for taxes levied on and after January 1, 2008.