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"Helping Business Owners and Professionals Retire on Time"

The Michigan Income Tax Increase and the New Tax on Services



The Income Tax Hike

On October 1, 2007, the Governor of Michigan signed into law Public Act 94 of 2007 (House Bill 5194), which raised the Michigan income tax rate from 3.9% to 4.35%. This tax increase became effective on October 1, 2007.

This tax hike results in some changes that employers and business owners need to be aware of. Beginning October 1, 2007, the withholding rate for employees is 4.35% of compensation after subtracting personal and dependency exemptions.

Business owners and those who make estimated tax payments should use one of the two methods to determine the amount of their fourth quarter estimated payment due January 15, 2008. One method, for those whose income was not equally earned throughout the year, is to pay 4.35% of the total income for the fourth quarter. The other method, for those who earn income equally throughout the year, is to calculate the estimated payment for the fourth quarter by multiplying the total income for the year by 4.01% (which is the annualized tax rate for 2007) and subtracting from that the estimated tax payments for the first, second, and third quarters in 2007.

More Information about the income tax rate change can be found at http://www.michigan.gov/taxes/0,1607,7-238-43513_44135-177505--,00.html.

The New Tax on Services

On October 1, 2007, the Governor of Michigan signed into law Public Act 93 of 2007 (House Bill 5198), which expanded the use tax to establish a 6% tax on the use or consumption of 23 different services. The tax becomes effective on December 1, 2007.

The services to which the tax applies are defined by the North American Industry Classification System (NAICS), 2002 which was produced by the United States office of Management and Budget. It should be noted that the performance of the described service – not the classification of the service provider – which determines whether the tax applies.

The following is a list of the services that are subject to the tax:

Service	NAICS Code	Examples of Service
Carpet and upholstery cleaning services	56174	Cleaning and dyeing used rugs, furniture, carpets, and upholstery.

Service	NAICS Code	Examples of Service
Business service center services	56143	Mailbox rental, postal and mailing services, photocopying, blueprinting, document copying services, facsimile services, word processing services, and on-site PC rental services.
Consulting services	5416	Administrative management and general management consulting services; human resources and executive search consulting services; marketing consulting services; process, physical distribution and logistics consulting services; environmental consulting services; and scientific and technical consulting services.
Investigation, guard and armored car services	56161	Investigation and detective services; guard and patrol services; and picking up and delivering money, receipts, or other valuable items with personnel and equipment to protect such properties while in transit.
Investment advice services	52393	Customized investment advice and financial planning advice.
Janitorial services	56172	Cleaning building interiors, interiors of transportation equipment (e.g., aircraft, rail cars, ships), and/or windows.
Landscaping services	56173	Providing landscape care and maintenance services and/or installing trees, shrubs, plants, lawns, or gardens.
Office administration services	5611	Administrative management services, business management services, executive management services, hotel management services (except complete operation of client's business), and managing offices of professionals.
Other travel and reservation services	56159	Providing travel arrangement and reservation services (other than travel agencies and tour operators).
Scenic transportation services	487	Utilizing transportation equipment to provide recreation and entertainment.
Skiing services	71392	Operating downhill, cross-country, or related skiing areas and/or operating equipment, such as ski lifts and tows.
Tour operator services	56152	Arranging and assembling tours.
Warehousing and storage services	4931	Operating merchandise warehousing and storage facilities.

Service	NAICS Code	Examples of Service
Packaging and labeling services	56191	Apparel and textile folding and packaging services, blister packaging services, gift wrapping services, kit assembling and packaging services, labeling services, mounting merchandise on cards, shrink wrapping services, and product sterilization and packaging services.
Specialized design services	5414	Interior design services, graphic design services, clothing design services, costume design services (except independent theatrical costume designers), fashion design services, fur design services, jewelry design services, shoe design services, and textile design services.
Transit and ground passenger transport services	4853	Taxi and limousine services.
Courier and messenger services	492	Providing intercity and/or local delivery of parcels.
Personal care services except hair care services	8121	Providing appearance care services to individual consumers (such as massage, nail care services, providing facials or applying makeup).
Security system services	56162	Selling security systems, such as burglar and fire alarms and locking devices, along with installation, repair, or monitoring services; or remote monitoring of electronic security alarm systems.
Document preparation services	56141	Letter or resume writing; document editing or proofreading; typing, word processing, or desktop publishing; and/or stenographic (except court reporting or stenotype recording), transcription, and other secretarial services.
Mini-warehouse services and self-storage unit services	53113	Renting or leasing space for self-storage.

Descriptions of the 2002 NAICS may be found at <http://www.census.gov/epcd/www/naics.html>.

The Act also taxes the use or consumption of the following personal services:

Astrology services	services
Baby shoe bronzing services	Bondsperson services
Bail bonding services	Check room services
Balloon-o-gram services	Coin-operated personal service machine services
Coin-operated blood pressure testing machine	

Comfort station operation services
 Concierge services
 Consumer buying services
 Credit card notification services
 Dating services
 Discount buying services
 Social escort services
 Fortune-telling services
 Genealogical investigation services
 House sitting services
 Social introduction services
 Coin-operated rental locker services
 Numerology services
 Palm reading services
 Party planning services

Pay telephone services
 Personal fitness trainer services
 Personal shopping services
 Coin-operated photographic machine services
 Phrenology services
 Porter services
 Psychic services
 Rest room operation services
 Shoeshine services
 Singing telegram services
 Wedding chapel services, but not churches
 Wedding planning services

In addition, the bill also taxes service contract services in which the seller, in exchange for the buyer's single payment, agrees to provide repair, maintenance, or replacement of one or more items of tangible personal property during a specified period of time, which services the buyer is not required to buy in connection with the purchase of tangible personal property.

The Act requires sellers to source sales and collect the tax from consumers of services. Note that in the rules below, the term "received" means making the first use of services.

1. If a product is received by the purchaser at a business location of the seller, the sale is sourced to that business location.
2. If a product is not received by the purchaser at a business location of the seller, the sale is sourced to the location where the product is received by the purchaser or the purchaser's designee, including the location indicated by instructions for delivery to the purchaser, known to the seller.
3. If either of the above provisions does not apply, the sale is sourced to the location indicated by an address for the purchaser available from the seller's business records maintained in the ordinary course of the seller's business, provided use of the address does not constitute bad faith.
4. If none of the above provisions apply, the sale is sourced to the location indicated by an address for the purchaser obtained at the completion of the sale, including the address of the purchaser's payment instrument if no other address is available, provided use of the address does not constitute bad faith.
5. If none of the above provisions apply or the seller has insufficient information to apply any of the above provisions, the sale will be sourced to the location indicated by the address from which the tangible personal property was shipped or from which computer software delivered electronically was first available for transmission by the seller.)

A seller who is responsible for collecting the use tax on services is required to do the following:

1. Register with the Department of Treasury, unless the seller is already registered for sales or withholding taxes, in which case the seller only needs to file a Notice of Change or Discontinuance form (form 163).
2. Collect the 6% use tax from purchasers/consumers
3. Remit the 6% use tax collected to the State of Michigan.

Forms and information about collecting the use tax are available on the State of Michigan website <http://www.michigan.gov/taxes>.

If the service provider does not have the obligation to collect and remit the use tax, such as if the service provider is out of state, then the purchaser is obligated to accrue and remit the use tax to the State of Michigan.