

SBT Replacement Conceptual Agreement

June 13, 2007

Revenue Replacement

- Revenue neutral

Tax Base

- 2/3 margin tax consisting of sales minus purchases of tangible property; rate under 0.8%
- 1/3 business income; rate under 5%
- Capital stock tax for banks
- Increase insurance premiums tax to 1.25%, plus credits

Personal Property Tax Relief

- 12 mills for commercial personal property
- 24 mills for industrial personal property
- 35% refundable credit on remaining industrial personal property
- Telephone credit corresponding to commercial personal property

Credits

- Investment and compensation credits capped at 65% of liability
- R&D credit capped at 75% of liability
- ME-2 Entrepreneurial credit

Small Business Treatment (Cost: \$120 million)

- Allow qualifying firms to pay a 1.8% tax on adjusted business income
- Increase officer compensation disqualifiers to \$160,000 to \$180,000
- Increase gross receipts threshold phase-out to \$18-20 million
- Increase aggregate business income disqualifier to \$1.3 million
- Allow flow-through entities to access the compensation credit

Revenue Trigger

- Year 1: 5% over FY 08 base
- Years 2 and 3: Growth over personal income + 1%
- FY08 base reflects revenue neutral SBT yield plus personal property tax millage reductions, excluding insurance
- Half of overage refunded to business taxpayers; half deposited into to BSF
- Trigger provision sunsets after 3 years

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