Abstract

A Policy Analysis of Michigan's Mislabeled Gross Receipts Tax
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On January 1, 2008, the State of Michigan implemented a new tax, labeled a modified gross receipts tax (MGRT). The label is misleading. The tax is not on gross receipts but rather on gross receipts reduced by "purchases from other firms," defined generally to include inventory purchased during the taxable year, capital purchases, and material and supplies. In some respects, the tax resembles a value-added tax (VAT), although it has some important features not found in a traditional VAT or in any known variation of that tax. The purpose of the MGRT, other than to raise revenue, is unclear on its face and is not clarified by the legislative history, which is virtually nonexistent.

In this article, we undertake to describe this new tax, classify it as best we can within the tax taxonomy, and speculate about its effects on Michigan taxpayers and on the Michigan economy. Section I, by way of introduction, summarizes the tax reform efforts that led to the adoption of the gross receipts tax. Section II discusses the problems of classifying the tax, comparing it to a traditional gross receipts tax and to a tax on value added. Section III begins with an overview of the salient features of the MGRT and then discusses in greater detail three important features of the tax, namely its nexus rules, its apportionment rules, and its unitary business rules. We speculate about the impact of the tax on Michigan and Michigan taxpayers in the conclusion.

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