

# MICHIGAN TAX LAW UPDATE

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TAX LAW

## MICHIGAN SIGNS STATE TAX LAW THAT DECOUPLES FROM FEDERAL OBBBA

In early October, Michigan passed as law (referenced: Public Act 24 which includes House Bill 4961) changing Michigan's Internal Revenue Code (IRC) conformity date from January 1, 2018 to January 1, 2025 and decoupling state business tax law from the several changes that were made at the federal level as part of the One Big Beautiful Bill Act (OBBBA) in July of this year.

The term "decoupling" refers to Michigan choosing to adjust the state tax law to not follow certain federal rules when calculating state taxable income for businesses.

The major federal business tax provisions that Michigan decoupled from are as follows:

- **Research & Experimental (R&E) Expenditures (IRC Sec. 174/174A):** Michigan businesses must continue to capitalize and amortize domestic R&E costs over five years for state taxes, instead of the immediate expensing allowed under the OBBBA.
- **Bonus Depreciation (IRC Sec. 168(k)):** Michigan continues to not allow the 100% bonus depreciation for corporate income tax purposes. Individual and flow-through entity taxpayers can only claim bonus depreciation at reduced rates (e.g., 40% in 2025).
- **Business Interest Expense Limitation (IRC Sec. 163(j)):** Michigan will follow the pre-OBBBA, more restrictive rules, which limit the deduction to 30% of Earnings Before Interest and Taxes (EBIT) instead of the more generous limit based on EBITDA in the OBBBA.
- **Section 179 Expensing:** Michigan will retain its lower, pre-OBBBA limits for the immediate deduction of depreciable business assets, ignoring the increased federal caps.
- **Special Depreciation for Qualified Production Property (IRC Sec. 168(n)):** Michigan will not conform to the 100% special depreciation allowance for certain qualified production property.

The main purpose of the decoupling was to generate state revenue (estimated at over \$500 million annually) to help fund priorities like the new Comprehensive Road Funding Tax Act.



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## Have questions?

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