

Overview of Bieda/Condino Work Group Proposal on Service Tax Repeal/Replacement Contained in HB 5408

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Summary

- **Repeal use tax on services effective on scheduled start of December 1, 2007.**
- **Impose MBT surcharge as replacement**
- **Revise and make permanent MBT rebate trigger.**
- **Hold harmless school aid fund through additional earmarking of \$205 million in FY 08 and \$250 million in FY09**

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Surcharge Details

- 32.9% in calendar year 2008
- 27.3% after 2008
- Does not apply to tax on insurance
- Retains special small business tax rate of 1.8%
- Cannot exceed \$2 million for any taxpayer or unitary group
- 27.7 % in 2008; 23.4% after 2008 for banks; cap does not apply

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Surcharge/Fiscal Information

	FY 2008	FY 2009	FY 2010
Revenue Increases from 9/30			
Income tax Rate to 4.35%	\$744.8	\$826.7	\$851.5
6% Tax on Selected Services	\$613.8	\$751.3	\$766.3
Total Increases in Current Law	\$1,358.6	\$1,578.0	\$1,617.8
Proposed Changes			
Repeal of Service Tax on December 1	(\$613.8)	(\$751.3)	(\$766.3)
MBT Increase - Effective January 1	\$557.5	\$807.2	\$765.7
Total Revenue with Proposed Changes	\$1,302.3	\$1,633.9	\$1,617.2
Change from Current Law	(\$56.3)	\$55.9	(\$0.6)

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Calculating Tax Liability With the Surcharge

1. Calculate tax base under modified gross receipts and business income tax.
2. Apportion tax base under current law
3. Calculate tax using current rates
4. Multiply tax amount from step 3 by surcharge percentage
5. Add amount from steps 3 and 4
6. Apply all credits(including compensation, R and D, investment and small business)

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Comparing the Triggers

<u>Feature</u>	<u>Current Law</u>	<u>Revision</u>
Duration	Expires after FY 2010	Permanent
Disposition Over Threshold	50% BSF; 50% Rebate to Taxpayers	100% Rebated to Taxpayers
Rebate Mechanism	Pro Rata Based on Net Cash Payments	Pro Rata Based on Surcharge

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