



## Michigan Report

Information Pertinent to Legislative and State Department Activities Since 1906

Volume #46, Report #219, Article #02 --Tuesday, November 6, 2007

[<< back](#)

### LAWMAKERS HEAR SERVICE TAX COMPLAINTS; SENATE PANEL APPROVES REPEAL

After hearing from a wide variety of business owners who warned the sales tax on services would force them to lay off workers as well as make their companies less competitive, the Senate Finance Committee on Tuesday voted out [SB 838](#) that would repeal the tax. Members of the House Tax Policy Committee heard similar testimony during the day and added [SB 845](#) - which delays implementation of the tax - to its calendar for Wednesday.

Democratic members of the Senate committee passed on voting on SB 838, saying they could not support the measure without some alternative tax in place.

The bill is tie-barred to SB 845, which delays the now December 1 effective date for the services tax to December 20. The committee adopted a substitute that actually allows the tax to take effect - in order to ensure that adopted provisions allowing for local governments to engage in health care insurance pooling are implemented - but then immediately repeal it.

While the committee did not consider alternatives to the tax - committee chair Sen. [Nancy Cassis](#) (R-[Novi](#)) said even asking witnesses what they would consider as an alternative would be out of order - a number of witnesses said if there must be a service tax it should be applied to all services and not just a select few. Others said the state should not adopt any alternative tax to replace the services tax, but make more cuts to the budget.

Executives from landscape companies, tool and die shops, environmental consultants, interior designers, private investigators, steel warehouses, language translating services and convention bureaus all called for the tax to be repealed. Some 30 witnesses over two hours spoke against the tax.

In fact, several business owners said if the tax was not repealed they would simply consider moving out of the state, since out-of-state competitors will be able to offer customers lower prices to get their business.

Tony Anthony of AKT Peerless Environmental of Farmington Hills said that the technical hub of his business, which provides environmental consulting often using available technical data, is in Michigan, but that if the tax goes into effect he could easily move the technical hub to Cleveland. "This will become a talent drain on Michigan," he said.

And Deborah Pringle of Visions of Paradise Landscaping in Shelby Township said the tax was unfairly selective. "Please don't crush us with this tax," she said.

The only witness who spoke against SB 838 was Scott Schrager of the Department of Treasury, and he said the administration of Governor Jennifer Granholm was not necessarily opposed to repeal but that the bill provided for no replacement tax. The Legislature had just adopted a budget based on the tax's revenues, Mr. Schrager said, and to repeal the tax without a replacement "sends the message you don't

really want to pay the bill."

Ms. Cassis said that no budget is sacrosanct.

But Sen. Gilda Jacobs (D-Huntington Woods) said that while there were compelling reasons why the services tax should be repealed, the state also had to maintain its functions in order to ensure that it could attract both visitors and new businesses.

Over in the House Tax Policy Committee, tourism, travel, landscape and insurance folks were testifying in support of repealing the services tax, with all arguing it would have detrimental effects to their industries, which are already struggling with the state's economy.

Mike O'Callahan with the Detroit Metro Convention and Visitors Bureau said if the service tax were to go into effect, marketing budgets would be cut, staff laid off and all would result in less people coming to the state. Michigan already has the lowest hotel occupancy rate in the nation, he said, even with its abundant natural resources and tourist spots. Mr. O'Callahan said his group is supportive of replacing the revenues in some way as he had testified about the need for investment in marketing Michigan as a tourist destination.

Carol Wagner of Carlson Travel Plus and the Michigan members of American Society of Travel Agents also said the travel industry would be put at a disadvantage with the tax because it is competing globally for business and have been struck hard since September 11, 2001. Lisa Payne with Passageways Travel said it's hard to hear people who were born and raised in the state now thinking of closing their travel business. She said it was unfair who was chosen to be taxed and who was not.

Amy Frankman with the Michigan Nursery and Landscape Association said landscapers are calling clients with winter and spring contracts and telling them about the additional 6 percent tax and clients have a simple response: cut my services by 6 percent instead.

She also said there would be environmental effects to the state. "Somehow it's a luxury to remove the dead tree with emerald ash borer?" she said.

Ms. Frankman said her industry will also have an issue with services that are taxable and nontaxable being bundled and the definitions aren't clear. And builders and excavators will be able to do the same services as a landscaper but escape the tax, she said.

Rep. Brian Calley (R-Portland) said when the bill was being voted, that's not how the analysis said things would work out.

Ms. Frankman said her group would not be opposed to a broad based tax that doesn't pick winners and losers.

Pete Kuhnmuensch with the Insurance Institute of Michigan said insurers are paying too much with the taxes and assessments placed specially on the industry and the service tax is yet another thing added to the list.

"Let's be frank. It's going to increase the costs to the consumer," he said.

He said his group is now formally on board with the Michigan Business Tax surcharge proposal by the Michigan Manufacturers Association, but wants to see the details in bill form. Rep. Kimberly Meltzer (R-Clinton Twp.) asked whether the group would support cutting state government without replacing the revenue and Mr. Kuhnmuensch said they still do believe the state can cut more.

Tricia Kinley with the Michigan Chamber of Commerce vehemently argued for repealing the service tax

as her members had a 90 percent negative reaction to it. Labeling it as a luxury tax has only angered her members, she said, and the Chamber is supporting the petition drive to repeal it.

But the Chamber also doesn't want to wait until November 2008 for the issue to be addressed, she said, and they believe the state should cut spending and do additional reforms because the budget is nearly \$900 million more in general funds than it was last year.

"This hardly appears to us that this is a budget that is cut to the bone," she said. "We are on an unsustainable path."

Rep. John Pastor (R-Livonia) asked her whether she believed the Treasury would turn into the Internal Revenue Service and Ms. Kinley warned the service tax would be an auditing nightmare.

If a MBT surcharge is put in place, the Chamber is insisting it must be temporary and limited in revenue to the revenue expected from the business-to-business portion of the service tax. To fully replace the revenue would mean a 20 to 25 percent surcharge, she said.

Rep. Joel Sheltroun (D-West Branch) questioned Ms. Kinley about the Chamber's original support for a higher income tax rate of 4.7 percent and she said they are open to revisiting that issue, but the Chamber made a good faith effort to support a 4.6 percent income tax tie-barred to government cuts and reforms after realizing in the late summer revenues were going to be part of the budget and the governor was threatening a government shutdown.

"The income tax is broad based and easy to implement," she said. But she agreed with Ms. Meltzer it would be hard to ask citizens for more money without showing that government was changing its ways.

Rep. Jeff Mayes (D-Bay City) argued some of the reforms proposed during the budget debate were more about making a political point and would not really save money.

House Speaker Andy Dillon (D-Redford Twp.) sat in the committee room for most of its hearing and said afterward the MBT surcharge option, as well as some others, are being discussed and he is open to having some legislative session days during the break scheduled next week if needed to address the issue.

But he said he would not go for an all cuts solution to repealing the services tax, as proposed by Republicans, because it took months to get an agreement on budget cuts that totaled less than the service tax revenue. And Mr. Dillon argued Republicans were wrong to say meaningful reforms weren't approved when the budgets include a mandate that state departments cut the costs of their vendor purchases by 5 percent.

Gongwer News Service: State Government News Reporting Since 1906. Copyright, 2007

124 W. Allegan St., Suite 1200, Lansing, Michigan, 48933

Phone: 517-482-3500 Fax: 517-482-4367 Email: [gongwer@gongwer.com](mailto:gongwer@gongwer.com)