



## Michigan Report

Information Pertinent to Legislative and State Department Activities Since 1906

Volume #46, Report #227, Article #01 --Monday, November 19, 2007

[<< back](#)

### SENATE PREPARING TO VOTE ON SERVICE TAX

Senate members will come into session on Tuesday to vote on a Republican proposal to scrap the expanded sales tax on services with a surcharge on the new Michigan Business Tax, but at a lower rate than the surcharge passed two weeks ago by the House and with a January 1, 2011 sunset.

There would still be a cap on the maximum amount of surcharge a company could pay, but that cap would be increased. How much it would be increased from the \$2 million level set by the House was not revealed.

Any chance that the House might act quickly on the changes the Senate made to [HB 5408](#) were dashed late Monday, however, when House leadership announced that chamber would not meet on Tuesday.

The proposal that Senate members would review to [HB 5408](#) Tuesday morning was still being developed during Monday afternoon, and so details were not forthcoming.

Officials were also hoping that the version that would go up for a vote would win Democratic votes to make it a bi-partisan proposal. Democratic votes may also be needed because of some concerns that not all Senate members will be able to get back into session from the two-week break that began on November 8.

Pressure for the Senate to act was coming Monday not just from the leadership's own sense of urgency but from business executives as well as House Democrats. House Speaker [Andy Dillon](#) (D-Redford Twp.) issued a statement saying the Senate had to act on the House plan to end the services tax or it likely would go into effect on December 1.

"Taking action now will save businesses millions in transition costs. The House did what had to be done to repeal the service tax expansion; the ball is now in the Senate's court," Mr. Dillon said in a press release.

But a spokesperson for Senate Majority Leader [Mike Bishop](#) said the Senate was trying to "fix a Democratic tax."

Explaining the decision of the House to not meet until after Thanksgiving, Dillon spokesperson Greg Bird said, "We passed a solution 11 days ago that had broad consensus from the business community. We will be happy to take a look at what, if

anything, the Senate passes."

And preparing for the Tuesday action, a poll was released showing most voters oppose the services tax, and a study was released showing that most businesses would pay nothing in a surcharge arrangement (see separate story).

What specifically the Senate would act on was being kept close to the vest. Even business groups and executives were uncertain on Monday what would go before the Senate.

So far, according to sources, Senate Republicans are keeping the proposal within a workgroup and leadership.

Several said they expected the final proposal would be changed on Tuesday after all GOP members and Democrats had had a chance to review it.

There was talk during the day House Democrats were trying to tie repeal of the service tax to alterations on the public school employee health care measure (better known as MESSA reforms), but legislative sponsor of that bill, Rep. Michael Sak (D-Grand Rapids) said late Monday Democratic leadership was not pursuing that combination at this time.

The House had passed a surcharge on a company's MBT rate of 32.9 percent for the first year and 27.3 percent in later years. The surcharge was capped by the House to \$2 million for an individual company.

The version of the services tax fix the Senate will look at Tuesday will have a lower surcharge rate, but what that rate would be lowered to was not revealed.

The \$2 million cap would also be increased, though officials would not say to what. Some business group officials said they had heard the cap might go to as much as \$3.5 million. Only some 37 companies were expected to pay the \$2 million cap and there are no calculations on whether the number of companies affected would change with an increased cap.

The Senate proposal is also supposed to be revenue neutral, which is one requirement Governor Jennifer Granholm made of any replacement tax for the services tax.

But under the Senate version it would not be permanent, being sunset on January 1, 2011. That provision would likely not meet with Ms. Granholm's approval, though business officials said they like the idea.

The bill has not technically been read into the Senate since the House approved it several weeks ago. According to officials the measure will stay on the Senate floor once it is read in instead of being assigned to a committee.

Rich Studley, executive vice president for the Michigan Chamber of Commerce, said the business group hoped the Senate would act on repealing the service tax Tuesday and that it is clear substantial changes should be made to the House version. But it's also important to work from that bill, he said, because it shows people are working in a bipartisan fashion.

The Chamber hasn't taken a position on the financial cap, because Mr. Studley said there is a split in their membership for support and disapproval. But one of the key items that appear to be addressed is putting a sunset in place so that when the economy turns around, businesses aren't still stuck with a surcharge.

Having a sunset that spans the length of the governor and current senators' terms is appropriate, Mr. Studley said.

Governor Jennifer Granholm has been insisting that permanent replacement of the revenue raised by the services tax is one of the three essential elements of an alternative tax. The other elements are that it be bipartisan and revenue neutral.