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SPLIT SENATE PASSES CHANGE TO SERVICE TAX

On a straight party-line vote Tuesday the Senate passed a repeal to the expanded sales tax on services that Republicans said would help businesses in the state by lowering the overall tax burden to companies, but that Democrats said will open the road to deficit spending in the future.

The latest version of [HB 5408](#) - which replaces the services tax by lowering the surcharge companies would pay on their Michigan Business Tax assessment and boosting the cap on the amount of tax the largest companies would pay - was approved by the Senate on a 20-16 vote. The version will almost assuredly be rejected by the Democratically-controlled House and be put into a joint Senate/House conference committee.

A spokesperson for Governor Jennifer Granholm called the Senate-passed bill an "unacceptable" cut to vital state services.

Most business groups praised the Senate action for at least putting both houses on record supporting a repeal of the service tax. Some called it a better alternative the House version, though they still opposed the idea of businesses alone picking up the cost of replacing the services tax. (See related story.)

One business official who did not want to be identified said, however, that as structured the Senate version would provide a bigger tax break to companies headquartered out of the state than those headquartered in Michigan.

Under the Senate version of HB 5408 the surcharge would sunset on January 1, 2011; the House did not have a sunset date.

The House version also set the surcharge on the MBT at 32.9 percent for the first year and lowered that to 27.3 percent in later years. The Senate version sets the surcharge at 13.85 percent.

That surcharge can be paid down by using an estimated \$219 million in extra revenues state officials anticipate the MBT will generate in its first year. Sen. [Jud Gilbert](#) (R-Algonac) said those funds will be used to smooth the surcharge rate over the three years of the Senate version of the tax.

The Senate bill also raises the cap on how much a company would pay on the services tax from the \$2 million the House set to \$7.5 million. At \$2 million it was estimated that 37 companies would be affected by the cap, at \$7.5 million officials estimated no more than a handful of companies would be affected.

Along with repealing the service tax, now scheduled to take effect on December 1, the new version of the bill also increases the owner/shareholder income limit under the MBT (which is an alternative method of determining MBT liability) from \$180,000 to \$190,000 and indexes that to personal income growth, determines that casual transactions like selling property or stock will not trigger MBT liability,

and specifies that any excess MBT revenues over estimates will be used to lower the surcharge rates.

Democrats charged that the changes rewrite the MBT before it takes effect on January 1 (to replace the Single Business Tax). They also charged it would open a hole in the state's budget by using that money to pay for tax cuts when it is now slated to go towards a variety of state services.

Sen. Michael Switalski (D-Roseville), the top ranking Democratic member of the Appropriations Committee, said he was proud the Senate "eschewed one-time fixes" when it passed the 2007-08 budget in October. Passing this bill was "fiscally irresponsible when you spend one-time money and then come up with a hole in the budget."

And Senate Minority Leader Mark Schauer (D-Battle Creek) said the bill would "blow a hole in the state budget and frankly jeopardize the future of our state. It's really a setback, unfortunately it's a setback when we're 10 days away from this new service tax from going into effect."

He said that if he were a business executive then he would have to assume that the tax would take effect because the bill's passage made it less likely the Legislature could find a solution to repeal the tax before it takes effect.

Mr. Gilbert said on the floor that the new version showed the state was taking a greater interest in the economy than in the budget. The budget is important he said, but "this is far more jobs friendly than what the House sent over."

Speaking to reporters after the session, Senate Majority Leader Mike Bishop (R-Rochester) said the Senate's version of HB 5408 demonstrated the commitment of Republicans that "standing against giant tax increases is the right thing to do."

The Legislature has to take steps to help turn the state's economy around and a turnaround will not come through taxes. "Taxes might be, I don't think many people would disagree, the reason why the economy is sputtering right now. The business community is up in arms over the solutions put before them," Mr. Bishop said.

If something is not done soon to reverse the state's economy, people may as well go to Canada, he said.

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