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House votes to kill, replace service tax

By Mark Hornbeck and gray Heinlein / Detroit News Lansing Bureau

LANSING -- A plan to kill Michigan's universally hated service tax and replace it with a surcharge on the state's new business levy won House approval late Thursday night.

The Democrat-controlled House voted 58-48 in favor of the bill, mostly along party lines, that tacks a 33 percent tax onto the gross sales of medium and large businesses across the state but scraps a previously passed measure to expand the 6 percent state sales tax to a mixed bag of services.

The surcharge would be added to the Michigan Business Tax, which replaces the former Single Business Tax and goes on the books Jan. 1.

The service tax is scheduled to take effect Dec. 1. Lawmakers were planning a two-week recess beginning today, but the Senate tentatively decided to come back to work Tuesday and Nov. 20 and could take up the service tax replacement legislation then. The House also has scheduled tentative session on those days.

"This is a signal to the business community that we're going to be responsible and do the right thing," said House Speaker Andy Dillon, D-Redford Township after passage of the bill.

Gov. Jennifer Granholm supports the measure.

House Republicans objected to the proposal saying the Democrats ram-rodged the bill through without considering their amendments.

"This is another attempt by Democrats to soak unsuspecting businesses late at night with a tax increase they didn't see coming," said House Republican Leader Craig DeRoche of Novi.

The House vote followed a parade of business representatives who testified before the House Tax Policy Committee throughout the day Thursday. Most reluctantly supported the surcharge as the lesser of two evils.

"We cannot survive a 6 percent service tax," said Julie Thomas, of Evans Distribution Systems, a warehousing company in Melvindale.

"We are a small company and we would be responsible for \$1 million alone under the service tax. But we're being forced to choose between a use tax on our customers and another tax increase on our business."

About two-thirds of the services tax would be paid by businesses and one-third by consumers.

The surcharge on the Michigan Business Tax is intended to replace the \$614 million that would be generated by the service tax, so the state budget for this year can remain balanced. Many businesses favored this alternative because the tax would be more broadly based than the

service levy and out-of-state companies would pay about one-third of the surcharge, according to Treasury officials.

Businesses that have sales of over \$18 million would pay the new surcharge, and none would have to pay more than \$2 million. If the tax collects more than expected, business taxpayers would get a rebate.

The surcharge rate would peel back to 27 percent after 2008.

About 60,000 businesses would have to pay the surcharge, and 150,000 small businesses would not pay, Treasury officials said.

The Big Three automakers and other major manufacturers, the construction industry, utilities, telecommunications companies and large retailers based in Michigan would pay far less under the surcharge than under the service tax, Treasury officials said

But some medium-size businesses would pay more. Representatives of some contractors and concrete and pipeline companies said those businesses would be losers.

The Michigan Chamber of Commerce opposed the surcharge, saying the tax should be temporary and the 33 percent rate should be lowered.

"We would prefer to see spending reductions rather than an alternative tax increase," said Tricia Kinley, tax expert for the chamber.

Other opponents included the Michigan Association of Home Builders, the Michigan Restaurant Association and the National Independent Federation of Business of Michigan.

Sarah Hubbard, vice president of the Detroit Regional Chamber of Commerce, said the service tax is so onerous her members roundly support the surcharge alternative.

"We are vehemently opposed to the service tax both because of the tax increase and the cost of compliance," said Hubbard. "Our goal is to get rid of the service tax and to get rid of it right away."

Charlie Pryde, a government affairs manager for Ford Motor Co., said the auto giant would save millions under the alternative tax. "The rate is high but that's prior to credits that really encourage economic activity in the state of Michigan," he said.

Eric Henning, regional director of state and local government relations for General Motors Corp., said GM would now pay more under the new Michigan Business Tax -- which is separate from the service tax -- than it did under the expiring Single Business Tax, but far less than it would pay under the service levy.

Senate Majority Leader Mike Bishop, R-Rochester, said the House "put our backs against the wall" by approving the bill so late in the day. "We're going to need time to review it," Bishop said.

The House Tax Policy Committee chairman, Rep. Steve Bieda, D-Warren, predicted the measure will wind up in a House-Senate conference committee.

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