

Senate passes replacement for service tax, but Democrats unhappy

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By **DAVID EGGERT** of The Associated Press

The state Legislature has a lot of work left but little time remaining to repeal an unpopular tax on services before it takes effect Dec. 1.

Senate Republicans voted along party lines Tuesday to replace the service tax by adding a temporary surcharge to Michigan's main business tax.

But Democratic Gov. Jennifer Granholm doesn't like the bill because she said it fails to bring in the same amount of revenue as the service tax, leading to what she called unacceptable budget cuts to education, health care and public safety.

Granholm also doesn't like a part of the bill that eliminates the surcharge in 2011, leaving a potential annual budget shortfall of \$750 million. She wants any solution to have bipartisan support, but Senate Democrats refused to support the GOP bill partly because they said it taps money that should go into the state rainy day fund.

Many in the business community support a measure passed by the Democrat-controlled House that would generate the same amount of money as the sales tax on services, which businesses oppose because they say it would cost too much, whether they were paying it or collecting it.

A House-Senate conference committee most likely will try to craft a compromise proposal next week when House members return Monday from a two-week break.

The biggest fight may be over how long the surcharge should last. Republican lawmakers want it to end three years from now, when the next governor takes office. That official can then decide if the surcharge should continue, said Senate Majority Leader Mike Bishop, R-Rochester.

But Democrats accused Republicans of renegeing on a promise to raise tax revenues. They note that the service tax, which passed Oct. 1, didn't include any date for being phased out or eliminated.

Senate Republicans don't like the plan passed two weeks ago by the Democratic-led House because it contains an initial surcharge on businesses of 33 percent, which they say is too high.

They also said Michigan's largest companies would benefit at the expense of others because the surcharge payments would be capped at \$2 million per company.

The Senate measure would drop the surcharge to 14 percent and limit the total amount paid by all big businesses such as domestic automakers to no more than \$7.5 million.

"This is far more job-friendly than what we were looking at," said Sen. Jud Gilbert, R-Algonac.

To bring in enough revenue under the lower surcharge rate, the Senate bill would tap \$219 million in one-time revenue that's expected to come into state coffers when the state drops the old Single Business Tax at the end of the year and switches to the new Michigan Business Tax.

The Legislature had voted to put any surplus into the state's depleted rainy day fund, so Democrats said tapping that \$219 million instead of socking it away is fiscally irresponsible.

"I am horrified to see we are now going to raid the piggy bank," said Sen. Michael Switalski, D-Roseville.

The conference committee may find a middle number for both the surcharge and the cap, and come up with a compromise on how to spread the additional tax burden to medium and large companies. Small businesses don't pay the new corporate tax.

But it also will have to settle a dispute over whether the GOP plan really is revenue-neutral.

Republicans said it is because the Michigan Business Tax will generate more money than projected. Democrats said Republicans are using fuzzy math and not sticking to the revenue projections used in the earlier deal to balance the state budget.

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